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Arizona Corporation Commission

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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF PINE WATER
COMPANY FOR A
DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY
AND FOR INCREASES IN ITS
RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE
AND FOR APPROVAL TO INCUR
LONG-TERM DEBT

DOCKET NO: W-03512A-03-0279

**OPPOSITION TO PINE STRAWBERRY
WATER IMPROVEMENT DISTRICT'S
MOTION TO COMPEL DISCOVERY**

Pursuant to the December 16, 2003 Procedural Order in this docket, Pine Water Company, Inc. ("Pine Water" or "Company"), hereby responds in opposition to the Pine Strawberry Water Improvement District's ("District") Motion to Compel Discovery dated December 10, 2003 ("Motion"). In the Motion, the District seeks an order compelling Pine Water to answer a number of discovery requests to which Pine Water timely objected. Pine Water's objections are premised on its belief that the additional information sought by the District is neither relevant nor calculated to lead to the discovery of admissible evidence concerning the issues before the Commission in this rate case. Put bluntly, Pine Water asserts that the District is on a fishing expedition resulting in undue harm to the Company and its ratepayers, harm that will continue and intensify if the District's Motion is granted.

Arizona Corporation Commission

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1 **I. INTRODUCTION.**

2 **A. Procedural Background.**

3 Pine Water was ordered by the Commission to initiate this rate proceeding no later
4 than May 1, 2003 using a year-end 2002 test year. Decision No. 65435 (December 10,
5 2002). Pine Water's application was filed on May 1, 2003 and on June 2, 2003, Staff
6 issued a Letter of Sufficiency concluding that Pine Water had met the rate filing
7 requirements of A.A.C. R14-2-103 for a Class C utility. Staff commenced discovery
8 almost immediately thereafter, propounding data requests and conducting a field
9 investigation of the Pine Water system. Staff's direct filing was docketed on October 15,
10 2003.

11 On October 14, 2003, the District moved to intervene asserting that its
12 constituency, "a substantial portion of which consists of the owners of property located
13 within the District that is also located within the Certificate of Convenience and Necessity
14 for the Pine Water Company" has an interest in the water rates and charges as "residential
15 and commercial users of water." *See* Cover Letter, Pine Strawberry Water Improvement
16 District Motion to Intervene. Although these property owners were not identified,
17 because the District has an interest in water supply issues in and around Pine, Arizona,
18 and because the Commission liberally grants intervention, the Company saw no reason to
19 incur additional rate case expense opposing the District's intervention.

20 Following intervention, the District filed its direct testimony arguing, among other
21 things, that the Commission should deny any rate increase and that the Pine Water system
22 belongs in the hands of the Community's citizenry. *See* Direct Testimony of Harry Jones
23 ("Jones Dt.") at 19; *see also* Direct Testimony of John Nelson ("Nelson Dt.") at 3.
24 Shortly, thereafter, the District propounded 17 requests for documents and 61
25 interrogatories on Pine Water. Pine Water timely objected to a number of these data
26 requests asserting, in general, that the District was seeking to expand the issues in this

1 case in an effort, in large part, to further its desire to condemn or otherwise acquire Pine
2 Water's assets, along with those of its affiliate Strawberry Water and its shareholder,
3 Brooke Utilities. *See, generally*, Motion at 1-2. A clear understanding of the District's
4 current make-up supports Pine Water's reasons for concern.

5 **B. The District.**

6 The District has sought to cloak itself with ratepayer authority, repeatedly
7 attempting to justify its claim by asserting that the information it seeks is necessary to
8 protect ratepayer interests. *See* Motion at 3. The facts suggest otherwise. In both direct
9 testimony and responses to Pine Water data requests, the District provides ample evidence
10 that Gila County ("County") is using the District's intervention in this ratemaking
11 proceeding to further its desire to acquire the assets of Pine Water and Brooke Utilities.

12 First, it was the County that made the decision to intervene. Nelson Dt. at 1.
13 Although this rate application was filed in May 2003, when an elected Board of Directors
14 made up of members and taxpayers was still running the District, it was not until mid-
15 October 2003 – after the County had assumed control of the District – that the motion to
16 intervene was filed. Moreover, the authority to formally intervene was not even provided
17 to the District until approximately two weeks later, by means of a County resolution
18 executed by County Supervisor Christenson on November 4, 2003. *See* Rebuttal
19 Testimony of Robert T. Hardcastle ("Hardcastle Rb.") at Hardcastle Rebuttal Exhibit 2
20 (District Response to Pine Water Date Request No. 1.13). Additional evidence in this
21 case further illustrates the County and District's desire to acquire the assets of Pine Water
22 and Brooke Utilities. *Id.* at No. 1.1 (emails discussing the retention of a financial advisor
23 and bond attorney to aid the District and/or County in "buying out" the utilities); No. 1.15
24 (preliminary report on the feasibility of the potential acquisition value of two Brooke
25 Utilities, Inc. subsidiaries – Pine Water Company and Strawberry Water Company)
26 provided to the County Manager, who is also running the District).

1 The Motion itself further supports the conclusion that the District, at the direction
2 of the County, seeks to acquire or eventually condemn Pine Water's assets. To illustrate,
3 the District repeatedly justifies the discovery sought in its Motion as a means to establish
4 the "fair market value" of the Company. *See* Motion at 9. Fair market value, typically
5 defined as the amount a willing buyer would pay a willing seller, may be relevant in a
6 condemnation proceeding, but it is not an issue in this proceeding. Instead, Pine Water
7 has elected to have its fair value rate base ("FVRB") determined based on original cost
8 rate base ("OCRB") and has not submitted schedules concerning the reproduction cost
9 new value of its assets devoted to public service. *See* Application at ¶ 7. Staff has agreed
10 that the Company's rate base is to be determined solely on the basis of original cost and
11 no other party has submitted evidence to support an alternative means of determining the
12 fair value of the Company's rate base for ratemaking purposes. Thus, the District's
13 attempt to justify its sweeping discovery requests on its need to establish the fair market
14 value of Pine Water's assets is, at best, a reflection of its lack of understanding of the
15 ratemaking process, or worse, as Pine Water suspects, evidence of its desire to use this
16 proceeding to gather information to aid its efforts to condemn the Company, or both.

17 **C. The District's Motion.**

18 Furthermore, the Motion, unduly delayed (Pine Water's objections to the subject
19 data requests were served over one month ago) and laced with pejorative hyperbole, is
20 consistent with other recent District efforts to harass Pine Water and prejudice this
21 Commission against the Company in a transparent effort to delay rate increases, and
22 thereby depress the Company's "market" value for condemnation purposes.¹ *See, e.g.,*
23 *Jones Dt.* at 4, 19. The District's Motion requests, in part, that the Commission compel
24 Pine Water to produce **five (5) years** worth of data on a broad range of topics, including

25
26 ¹ Concurrent with this responsive filing, Pine Water is also moving to quash the District's belated and unnecessary notices of depositions and responding to its Motion for Sanctions.

1 but not limited to: (1) all financial records of the Company and its affiliates and holding
2 companies, including but not limited to Brooke Utilities, Inc. and Crystal Investments
3 L.L.C.; (2) information regarding the amount of water developed and sold and all
4 accounting records; (3) all records of expenditures for locating new water sources; (4)
5 expenditure for legal services; and (5) a backlog listing of requested meter installations.
6 See Motion at 4. The Motion also seeks to compel Pine Water to produce information
7 regarding common employees, officers, directors, shareholders and creditors between the
8 Company and any affiliate. *Id.* at 8. Lastly, the Motion seeks to compel Pine Water to
9 produce **fifteen (15) years** worth of data on water rate studies, connection fee studies,
10 impact fee studies, total sales, total accounts by customer class and total water usage by
11 customer class. *Id.* at 3.

12 During the course of discovery, Pine Water has not, as the Motion suggests, “set
13 arbitrary limits” on its discovery responses. *Id.* at 2. While the Commission’s
14 administrative rules allow for liberal discovery in rate case proceedings, such discovery
15 must, at a minimum: (1) be likely to lead to information relevant to properly adjust and/or
16 normalize test year data; (2) be relevant to rate case matters at issue; and (3) not unduly
17 broaden the scope of the proceedings without an offer of proof that such action is either
18 necessary or warranted. Rule 26(b), Arizona Rules of Civil Procedure. For this reason,
19 Pine Water has provided the District with all requested data from the test year (2002) and
20 the year prior (2001), without waiving its original objections on the grounds of relevancy.
21 Pine Water has also recently sent the District copies of all of the Company’s responses to
22 Staff’s data requests, even though the District never requested such information.

23 It follows that, Pine Water’s objections to many of the District’s data requests are
24 neither “absurd” nor “bogus,” nor are they designed to protect any “incestuous
25 interrelationship” between Pine Water and its affiliates. Motion at 3, 7, 10. Rather, the
26 objections are intended at preventing the District from continuing to abuse the

1 Commission's ratemaking process in furtherance of its ultimate goal – to acquire Pine
2 Water assets at the cheapest possible price – all under the guise of the “public interest.”
3 The Commission's primary function in this matter is to determine the fair value of Pine
4 Water's rate base, establish sufficient revenue to cover operating expenses and provide a
5 reasonable rate of return thereon. The discovery the District seeks to compel in the
6 Motion is unnecessary to this, or any other purpose, of this proceeding.

7 **II. THE DISTRICT'S MOTION TO COMPEL SHOULD BE DENIED.**

8 **A. The District's Request for Five (and in Some Cases Seven) Years of**
9 **General Operations Data is Unduly Burdensome, and Does Not Seek**
10 **Evidence Relevant or Necessary to These Proceedings.**

11 As many of Pine Water's objections reflect, the Commission sets rates based on the
12 use of a historical test year, with certain pro forma adjustments to create a more normal or
13 realistic relationship between rate base, revenues and expenses during the time the new
14 rates will be in effect. *See* A.A.C. R14-2-103. Relevant data concerning test year
15 expenses and revenue is contained in the income statement included in the Company's
16 application, along with the required information on plant, cost of capital and rate design.
17 Nearly all of the pro forma adjustments made in Pine Water's filing are formulaic
18 adjustments routinely made by applicants, Staff and RUCO in Commission rate
19 proceedings. *See* Direct Testimony of Thomas J. Bourassa (“Bourassa Dt.”) at 6-9
20 (discussing adjustments for income, property and sales taxes, billing adjustments, revenue
21 annualization, depreciation expense and rate case expense). The only other significant
22 adjustments involve normalizing legal expenses and removing test year water hauling
23 expense, the latter expense now subject to a separate surcharge. Staff has conducted its
24 review of the information submitted by Pine Water and the majority of the revenue
25 requirement in dispute between Staff and Pine Water arises from three of Staff's
26 adjustments to rate base, removal of post test year plant additions and negative deferred
income taxes and the addition of Project Magnolia, as well as Staff's related removal of

1 transportation expense related to purchasing water delivered through the Project.
2 *Compare* Direct testimony of Claudio Fernandez (“Fernandez Dt.”) at 6-14 *with* Rebuttal
3 Testimony of Thomas J. Bourassa (“Bourassa Rb.”) at 4-34. Indeed, the only actual test
4 year expense level in dispute relates to materials and supplies, an issue impacting less than
5 3% of the Company’s and/or Staff’s recommended overall revenue requirements. *Id.*

6 Against this backdrop, the District contends that information relating to a historical
7 period beyond the test year (2002) and the previous year (2001) is necessary to ensure that
8 Pine Water has not “manufactured” data to support higher rates. *See* Motion at 3.
9 However, the arguments and examples provided by the District to support this claim
10 expose the District’s lack of understanding regarding the methodology employed in
11 Commission ratemaking proceedings. For example, the District asserts that Pine Water
12 provides data dating back three years to 2000 in its Schedule E-2, and that it is not
13 unreasonable to “provide a year, maybe two more years data so that this information can
14 be viewed to determine if the test year presentation is reality or a trend manufactured by
15 the company to support higher rates.” *Id.* Apparently, the District is unaware that A.A.C.
16 R14-2-103 requires Pine Water to provide three years data – the test year and two years
17 prior – for Schedule E-2. Pine Water’s adherence to the applicable filing requirements is
18 no basis to claim that the Company is manufacturing test year data, nor does it justify the
19 District’s request to examine five (or seven) years of the Company’s records.

20 Likewise, the District accuses Pine Water of selecting the adjustment to test year
21 legal expenses “which justifies the higher cost to obtain a higher rate.” *Id.* Amazingly,
22 Pine Water actually made a voluntary adjustment to reduce test year legal expense by
23 using a three-year average of such costs to “normalize” and **lower** the cost to ratepayers
24 on a going-forward basis. *See* Schedule C-2, Adjustment No. 10., contained in the
25 Company’s direct filing. Staff accepted this adjustment, presumably because Staff
26 recognizes that Pine Water will continue to incur such expenses to protect the availability

1 of precious water resources in the area of its operations. *See* Fernandez Dt. at Schedule
2 CMF-9. In any event, this adjustment also fails to provide any justification for the
3 District's requested review of several years of records.

4 The District's reliance on Pine Water's amortization of rate case expense over a
5 three-year period is equally misplaced. Motion at 3 (*citing* Adjustment No. 7, schedule C-
6 2 page 8). The amortization of rate case expense relates to the number of years, going-
7 forward, that the Company will collect a portion of its total, authorized rate case expense,
8 and is based on an estimation of when Pine Water will file its next rate case. Bourassa
9 Rb. at 15. This adjustment has nothing to do with historic year expense levels.

10 Nor does the District's attempt to exaggerate a few recording or accounting errors
11 into a problem with test year data justify its requested fishing expedition. Again, Staff,
12 which obviously has substantial expertise in evaluating rate filings, has reviewed the
13 Company's filing and made its recommendations without expressing any significant
14 concern over the validity of the Company's data due to a few minor errors in the
15 Company's records. In fact, the District has not made any showing that even one of these
16 errors has an impact on the Company's revenue requirement or rates. Instead, what the
17 District relies upon are the types of bookkeeping errors commonly found and corrected in
18 rate proceedings, most of which have been explained and corrected in the Company's
19 rebuttal filing, and none of which have been shown to impact the ratemaking process.
20 *See, e.g.,* Bourassa Rb. at 22 ²

21 In short, the District has failed to provide any basis for its assertion that it must
22

23 ² A perfect illustration of the District's misplaced reliance on a few bookkeeping errors is its reference to
24 the erroneous recording of property tax payments. Consistent with Arizona Department of Revenue
25 methodology, the Commission sets the property tax expense level based on revenue numbers, either
26 historic or projected, or both. *See, e.g.,* Decision No. 64282 (December 28, 2001) at 12-13; Decision No.
65350 (November 1, 2002). The property tax payments recorded on the Company's books for prior years,
even the test year, are immaterial to the determination of the property tax expense level in this case.
Therefore, the error which the District notes, and which has been corrected by the Company, is of no
consequence.

1 “look deeper and further back to get a comprehensive grasp of the situation.” *See* Motion
2 at 5.³ Instead, in its ignorance of the ratemaking process, it has cobbled together
3 misstatements and misrepresentations of fact, embellishment of immaterial and now
4 corrected bookkeeping errors, and its own hunger for a free shot at all of Pine Water’s
5 books and records in an effort to further its own ends. In that light, the burden that would
6 be suffered by Pine Water – a small utility trying to combat some of the worst water
7 supply issues in the state – if it had to interrupt its operations to produce years of
8 operational and other data, and the burden on ratepayers, who would have to absorb the
9 additional rate case expense associated with that effort, clearly outweighs the District’s
10 request for free reign over the Company’s books and records.

11 **B. The District is Entitled to Information on Pine Water’s Affiliates to the**
12 **Extent These Affiliates Transact Business with Pine Water.**

13 The District’s inflammatory characterization of the relationship between Pine
14 Water, Strawberry Water and Brooke Utilities as an “incestuous menage” clearly
15 illustrates its desire to prejudice the Company before the Commission. The District
16 provides no offer of proof to justify its claims of inter-affiliate abuse, and the District’s
17 claim that the Company has refused to answer data requests concerning affiliate
18 transactions is false. *See* Motion at 9.⁴ Between the information already provided, and

19 ³ The District’s reference to Staff having “the benefit of multiple years of records” and that Pine Water
20 should be subject to discovery “on all such information so that everyone before the Commission has the
21 same data with which to work” is puzzling. *Id.* at 4 – 5. The Company is unaware of what records the
22 District refers to, beyond apparently, annual reports and/or the schedules and other materials in the record
23 from the Company’s last rate case, filed approximately four years ago. Of course, these types of records
24 are relevant to a determination of OCRB and to the issue between Staff and Pine Water over Project
25 Magnolia, and these records are available to the District through the Commission. In addition, as noted
26 above, although not requested by the District, the Company has provided the District with a complete set
of its responses to Staff’s discovery requests to date. Thus, the District has “the benefit of the same data”
as Staff.

⁴ Contrary to the District’s assertion that Pine Water has refused to answer Interrogatories No. 3, 20, 23
and 24, the Company has provided a response to each to the extent it requests information regarding
affiliate transactions impacting rates, without waiving its objection to any broader discovery. *See* Exhibit
1 (copies of Pine Water discovery responses).

1 the copies of responses to Staff's data requests recently provided by Pine Water on a
2 voluntary basis, Pine Water has essentially disclosed all requested information on affiliate
3 transactions.

4 In contrast, information regarding Pine Water's affiliates that is unrelated to
5 transactions with the Company is not properly discoverable in this proceeding.
6 Apparently knowing this to be true, the District again resorts to blatant exaggeration and
7 misrepresentation. For example, the District states that annual corporate disclosure
8 statements filed by Pine Water indicate that its majority shareholder is Crystal
9 Investments, L.L.C., in contrast to evidence in the record in this case showing that Pine
10 Water is owned by Brooke Utilities. As a result, the District declares "it is not possible to
11 determine who owns what or who owns what to whom?" *Id.* at 7. There is no allegation
12 that Pine Water transacts business with Crystal Investments and this issue is simply a red
13 herring. In fact, this matter has already been addressed between counsel for Pine Water
14 and counsel for the District. *See* Exhibit 2 (copy of November 14, 2003 e-mail to District
15 counsel thanking him for bringing the error to the Company's attention, confirming
16 Brooke Utilities' sole ownership of Pine Water and indicating a corrective filing would be
17 made shortly); *see also* Exhibit 3 (Pine Water's Request for Amended Corporation Annual
18 Report and Certificate of Disclosure Statement, December 3, 2003). In other words, the
19 District was fully aware that Brooke Utilities is Pine Water's sole shareholder at the time
20 it filed this Motion and its attempt to intentionally mislead the Commission to further its
21 interest in obtaining information regarding all of Pine Water's affiliates should not be
22 overlooked.⁵

23 ⁵ The District reference to Pine Water's adjustments to property taxes as an example of interaffiliate abuse
24 (Motion at 7) is discussed above. *See* Fn. 2, *infra*. Preferring to attack the truthfulness of Pine Water's
25 accounting witness, Thomas Bourassa, the District ignores the explanation in Mr. Bourassa's rebuttal
26 testimony, which clearly shows not only the reasons for the error but, more importantly, the fact that these
recording errors have no impact on the determination of rates in this proceeding. Bourassa Rb. at 22. It is
therefore, hard to imagine a basis for the District's assertion of an ulterior motive on the Company's part
or how this error justifies further discovery.

1 In the end, the District's argument concerning its need for discovery regarding Pine
2 Water's affiliates quickly digresses into a laundry list of contrived issues that belie basic
3 ratemaking concepts. For instance, the District posits the question "How can any year
4 2003 expenses (approximately \$75,000 of plant addition planned for 2003) get into the
5 balance sheet of 2002?" *Id.* Obviously, the District is unaware that pro-forma
6 adjustments to rate base to reflect revenue neutral post test year plant additions serving
7 test year customers are commonly authorized by the Commission. *See, e.g.,* Decision No.
8 64282 at 2-5; Decision No. 65350 at 4-11. Certainly, this is not a reason for additional
9 discovery. Nor is identifying the common employees and creditors of Pine Water and its
10 affiliates "vital to the determination of fair value of the company and the truthfulness of
11 [Pine Water's] application" as the District alleges, without any explanation whatsoever.
12 *Id.* Staff certainly has not made that determination in its calculation of FVRB, nor is Pine
13 Water aware of such information ever being used in this manner in a rate case.

14 In summary, neither Brooke Utilities nor Strawberry Water Company are parties to
15 this proceeding, and Brooke Utilities is not even subject to regulation by the Commission.
16 Moreover, despite its objections, Pine Water has provided information regarding
17 transactions between Pine Water and its affiliates as they pertain to matters in this rate
18 case. The District is entitled to nothing more.

19 **C. The "Fair Market Value" of Pine Water's Plant may be Important to**
20 **Condemnation Value, but it is Immaterial to Ratemaking in this**
21 **Proceeding.**

22 Pine Water objected to the District's Interrogatories Nos. 10 and 45 and to Request
23 to Produce No. 17 on the grounds that the information sought is not relevant, and seeks to
24 expand the scope of this proceeding. This is hardly "whining" as the District suggests.
25 Motion at 9. Rather, as discussed above, these objections are grounded in the fact that the
26 Commission will determine Pine Water's FVRB based on original cost, which has nothing
to do with fair market value. *See* Application at ¶ 7. In contrast, as acknowledged by

1 District counsel, fair market value is an issue in a condemnation action like the one the
2 District appears to be preparing to bring to acquire the assets of Pine Water, as well as
3 Strawberry Water and Brooke Utilities. See Exhibit 4 (December 8, 2003 letter from
4 District counsel to undersigned counsel). This is not to say that Pine Water disagrees with
5 Hugo Grotius' seventeenth century views on the legal nature of property rights and the
6 government's right to condemn it. Motion at 9. Rather, Pine Water merely asserts that
7 the District's (and/or County's) right to condemn these assets is not and cannot be
8 exercised in this rate case.

9
10 **D. The Miscellaneous Issues Presented by the District are Argumentative
and do not Support Further Discovery.**

11 In yet another attempt to justify a fishing expedition by portraying Pine Water in
12 the worst possible light, the District asserts that the Company has erroneously indicated
13 "in its propaganda sheet handed out at the Dec. 8 hearing in Pine that 'Pine Water is in
14 compliance all ADEQ and ACC regulations.' As of December, 2003, that is not a true or
15 correct statement because ADEQ has reported to the District that Pine Water Company is
16 Not in Compliance and that Major Deficiencies exist." Motion at 10. The Major
17 Deficiency noted in the ADEQ Compliance Status Report attached to the Motion is that
18 the system has failed to provide the calendar year 2002 Consumer Confidence Report by
19 July 1, 2003. At the time Pine Water prepared its public comment session handout, it was
20 unaware of this ADEQ deficiency, primarily because ADEQ is wrong. Pine Water
21 submitted its Consumer Confidence Reports to ADEQ on April 23, 2003. See Exhibit 5.

22 **III. CONCLUSION.**

23 The District's Motion to Compel is unsupported by the evidence and seeks
24 information that: (1) is not relevant to the issues in the rate case proceeding; (2) is
25 intended to expand the nature and scope of this proceeding; and (3) is unduly burdensome
26 and unfair to Pine Water and its ratepayers, who will bear the increasing rate case costs

1 associated with the District's abusive discovery tactics and misuse of this proceeding to
2 further its desire to condemn Pine Water's assets. Accordingly, and for the reasons set
3 forth herein, Pine Water respectfully suggests that the Commission sustain the Company's
4 objections and deny the District's Motion to Compel Discovery.

5 RESPECTFULLY SUBMITTED this 19th day of December, 2003.

6 FENNEMORE CRAIG

7
8 By 

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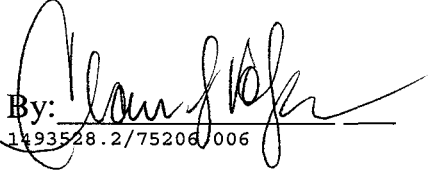
16 A copy of the foregoing
17 was hand-delivered this
19th day of December, 2003, to:

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EXHIBIT

1

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Attorney for Pine Strawberry Water Improvement District

BEFORE THE ARIZONA CORPORATION COMMISSION

**IN THE MATTER OF THE APPLICATION
OF PINE WATER COMPANY FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY, A RATE INCREASE
AND FOR APPROVAL TO INCUR LONG-
TERM DEBT.**

**DOCKET NO. W-03512A-03-0279
INTERROGATORIES TO PINE WATER
COMPANY**

TO: PINE WATER COMPANY, and its attorney of record.

Pursuant to Rule 33, Arizona Rules of Civil Procedure and the Order of the Hearing Officer in the above captioned matter, you are hereby required to answer in writing and under oath, within ten (10) days, the following interrogatories, in accordance with the following instructions.

INTERROGATORIES

I. INSTRUCTIONS

(A) These interrogatories shall be deemed continuing so as to require supplement answers if you obtain further or additional information with respect to the subject matter of any of these interrogatories after your answers have been made.

(B) As used herein, "person" shall mean any natural person, firm, partnership, joint venture, corporation or other entity.

(C) Whenever an interrogatory requests that you identify a person, state his or its full name and complete present or last known residential and business address and phone numbers.

Where the "person" identified is an individual, state in addition: (i) the name and address of the person who was his employer at the time relevant to the interrogatory; (ii) his present

- 1 3. What are the terms and costs of any service agreements with Brooke Utilities or any
2 other vendors related to transporting water from the source to the Pine Water Co. or to
3 Strawberry Water Co., and have any of these transactions involved a middleman or
4 other entity besides the actual transportation entity?

5 OBJECTION: PWCo objects to this interrogatory to the extent it requires information regarding
6 entities other than PWCo, except to the extent such entities provide services to or otherwise transact
7 business with PWCo. Neither Brooke Utilities nor SWCo are parties to this proceeding and Brooke
8 Utilities is not subject to regulation by the ACC. Accordingly, the District is not entitled to conduct
9 discovery regarding these other entities in this proceedings, except to the extent such entities provide
10 services to or otherwise transact business related to the transport of water with PWCo. Without
11 waiving this objection, PWCo will respond by providing information regarding water transported to
12 PWCo during the test year.

13 RESPONSE: See Response to Request for Production of Documents, Attachments No. 3 and No. 5.

14 RESPONDENT: Robert Hardcastle, Mistie Jared.

- 15 4. What terms of sale, transaction relationships, and ownership relationships does Pine
16 Water Co. have with entities related to Strawberry Water Co., Brooke Utilities, Robert
17 Hardcastle, Crystall Investments L.L.C., Jayco or Jayco Oil Company, or similar
18 entities that are not arms-length transactions that effect the cost of water (including
19 purchase, transportation or wheeling), or reliability of water supply to Pine Water Co?

20 OBJECTION: PWCo objects to this interrogatory because it is overly broad and unduly burdensome,
21 as well as being too vague to formulate a response. None of the terms used in this interrogatory (i.e.,
22 “terms of sale”, “transaction relationships”, “ownership relationships” and “not arms-length”) are
23 defined and, therefore, PWCo does not know the specific transactions and/or types of transactions the
24 District seeks information concerning, a problem not cured by the District’s ambiguous request for
25 information impacting the “cost of water.” PWCo is a public service corporation providing water
26 utility service in its CC&N and every transaction with every entity or person can be said to “effect the
27 cost of water.” Certainly, PWCo is not required to identify the terms of every relationship it might
28 have with the listed entities. Moreover, to the extent transactions with such entities impact the
29 determination of just and reasonable rates for PWCo, such transactions are or will be addressed in
30 PWCo’s prefiled testimony in this proceeding.

1 8. Is Brooke Utilities a regulated utility company and is it (or related entities or
2 individuals) the sole or partial owner of Project Magnolia or any other transportation
3 entity that has or will be transporting water in the pipeline or by truck from Strawberry
4 or other locations to Pine or to Strawberry, with ultimate flow of the water to Pine
5 Water Co.?
6

7 OBJECTION: PWCo objects to this interrogatory to the extent it requires information regarding
8 entities other than PWCo, except to the extent such entities provide services to or otherwise transact
9 business with PWCo. Brooke Utilities is not a party to this proceeding and is not subject to regulation
10 by the ACC. Accordingly, the District is not entitled to conduct discovery regarding this entity in this
11 proceeding, except to the extent Brooke Utilities provide services to or otherwise transacts business
12 with PWCo. Without waiving this objection PWCo states that Brooke Utilities is the sole owner of
13 Project Magnolia, as stated in PWCo's direct filing in this rate case, and as will be explained in further
14 detail in PWCo's forthcoming rebuttal filing.
15

16 9. Has Brooke Utilities or Pine Water Co. ever sought a willing buyer for Pine Water Co.
17 securities or assets for any reason?
18

19 OBJECTION: This proceeding involves an application for the determination of the fair value of
20 PWCo's property devoted to providing water utility service, establishment of just and reasonable rates
21 based on such finding of fair value, and certain financing approvals. Whether PWCo's assets or stock
22 was ever for sale is neither relevant nor calculated to lead to the discovery of admissible evidence. In
23 fact, this interrogatory supports PWCo's general objection, set forth above, that the District seeks to
24 expand the nature and scope of these proceedings in an effort to conduct discovery supporting an
25 unfiled and presumably as yet unauthorized effort to condemn or otherwise acquire PWCo's assets. In
26 addition, PWCo objects to this interrogatory to the extent it requires information regarding entities
27 other than PWCo. Brooke Utilities is not a party to this proceeding and is not subject to regulation by
28 the ACC. Accordingly, the District is not entitled to conduct discovery regarding this entity in this
29 proceedings.

10. Who are the beneficial owners or principals of Crystal Investments L.L.C., and Jayco
and what other firms or entities are related thereto?

OBJECTION: PWCo objects to this interrogatory to the extent it requires information regarding
entities other than PWCo. Neither Crystal Investments nor Jayco are parties to this proceeding and
neither is subject to regulation by the ACC. Accordingly, the District is not entitled to conduct

1 discovery regarding these entities in this proceeding, Furthermore, this interrogatory supports PWCo's
2 general objection, set forth above, that the District seeks to expand the nature and scope of these
3 proceedings in an effort to conduct discovery supporting an unfiled and presumably as yet
4 unauthorized effort to condemn or otherwise acquire PWCo's assets.

- 5 11. What hard dollar expenditures has Pine Water Co. made in the last three years to
6 explore for or acquire additional water resources for Pine Water Co., and what have
7 been the results of such expenditures?
8

9 OBJECTION: PWCo objects to this interrogatory because it is overly broad and unduly burdensome.
10 Rate case proceedings before the ACC are based on a historical test year. Accordingly, seeking
11 information regarding the Company's so-called "hard expenditures" for the last three years is overly
12 broad and unduly burdensome. Moreover, to the extent that the Company has expended capital
13 relevant to this rate proceeding, such capital expenditures would be reflected in the Company's rate
14 base. All relevant information regarding the Company's rate base at issue in this case is contained in
15 the Company's direct filing and application, and further information regarding such expenditures may
16 be found in the Company's annual reports on file with the ACC, all of which are either in the
17 possession of the District, or which can be obtained from the ACC. Unless the District has specific
18 requests for backup information regarding particular rate base items or ratemaking treatment, the
19 Company is unable to answer such a general request. Nevertheless, without waiving this objection,
20 PWCo will respond by discussing recent efforts to acquire additional water resources as such efforts
21 are relevant to this pending rate case.

22 RESPONSE: PWCo long ago concluded, based on decades of studies and its own operation
23 experience that sufficient water resources necessary to meet the demands of PWCo are not available
24 in Pine, Arizona. See also response to Request to Produce, Attachment No. 2; Direct Testimony of
25 Robert T. Hardcastle, Rebuttal Testimony of Robert T. Hardcastle and Water Augmentation Plan,
26 Direct Testimony of Robert T. Hardcastle at Exhibit B.

27 RESPONDENT: Robert Hardcastle.
28
29

12. What quantity of water has been transferred by Strawberry Water Co. to Pine Water Co.
each year from 1997 through 2002, and to date in 2003, at what cost, by what method
(truck, pipeline, other means), and who were the vendors providing the water and the
transportation or wheeling services?

1 OBJECTION: PWCo is unaware of any requirement to file a five-year business projection to the
2 ADEQ Capacity Development Coordinator. The District has not provided a specific reference to any
3 Arizona statute or administrative rule requiring PWCo to file a five-year business projection with
4 ADEQ. Therefore, the information sought in this interrogatory is neither relevant nor calculated to
5 lead to the discovery of admissible evidence.

6 23. Has Pine Water Co., Strawberry Water Co., Brooke Utilities, or any related firms ever
7 participated, or been invited to participate in, water development activities of The
8 Northern Gila County Water Project Alliance, The Mogollon Rim Water Resource
9 Management Study, or the Pine/Strawberry Water Improvement District Water
10 Resource and Action Plan, and if so to what extent have the entities participated, or if
11 not on what basis have they declined to participate?

12
13 OBJECTION: PWCo objects to this interrogatory to the extent it requires information regarding
14 entities other than PWCo. SWCo and Brooke Utilities are not parties to this proceeding, and Brooke
15 Utilities is not subject to regulation by the ACC. Accordingly, the District is not entitled to conduct
16 discovery regarding these entities in this proceeding. Without waiving this objection, PWCo will
17 provide responses regarding PWCo, as the applicant, and Brooke Utilities, as the applicant's
18 shareholder, as requested in this interrogatory.

19
20 RESPONSE: PWCo has been invited to participate in the No. Gila County Water Project Alliance and
21 has done so on numerous occasions. PWCo, ceased participating in such a group after it became
22 apparent that the group was a political charade for local politicians, had no clearly defined mission,
23 sought to collect water resource and operating data that was none of their business, and failed to notify
24 PWCo on at least two separate occasions of the cancellation of regularly scheduled meetings after
25 Robert Hardcastle specifically traveled to Payson for these meetings. PWCo not familiar with the
26 Mogollon Rim Water Resource Management Study. PWCo (and Brooke Utilities) have participated in
27 dozens of meetings with the PSWID Water Resource and Action Plan including ongoing weekly
28 briefings between company representatives and District members. It became obvious to PWCo, later
29 confirmed through the lack of results, that the District did not possess the capability, resources, or
30 personnel to accomplish the objectives of their charter. PWCo concluded that further participation in
31 such efforts would yield little or no additional sustainable water supplies and would only accrue to the
32 further expense of ratepayers to be paid for in future rate proceedings. Brooke Utilities and PWCo
33 have initiated at least two other and additional community organization meetings with the purpose of
34 increasing community communication and exploring alternative courses of action that would yield
35 further sustainable supplies of water.

36
37 RESPONDENT: Robert Hardcastle.

1 24. Over the last five years, has Pine Water Co., Strawberry Water Co., Brooke Utilities, or
2 any related firms completed any studies on availability of additional water in the Pine
3 and Strawberry areas, and if so what were the results of such studies? Please attach a
4 copy of each such study to your responses to these interrogatories.
5

6 OBJECTION: PWCo objects to this interrogatory to the extent it requires information regarding
7 entities other than PWCo. SWCo and Brooke Utilities are not parties to this proceeding, and Brooke
8 Utilities is not subject to regulation by the ACC. Accordingly, the District is not entitled to conduct
9 discovery regarding these entities in this proceeding. Without waiving this objection, PWCo will
10 provide responses regarding PWCo, as the applicant, and Brooke Utilities, as the applicant's
11 shareholder, concerning studies on the availability of additional water that can be utilized to serve
12 PWCo's ratepayers.

13 RESPONSE: *See* Response to Request for Production of Documents, Attachment No. 2.

14 RESPONDENT: Robert Hardcastle.
15

16 25. Month-to-month over the past five years, what has been the backlog of requested meter
17 installations in Pine and Strawberry service areas that have not been installed, and what
18 is the reason for not making each specific installations?
19

20 OBJECTION: PWCo objects to this request as being overly broad and unduly burdensome. Rate case
21 proceedings before the ACC are based on a historical test year. Accordingly, seeking information
22 regarding meter installations for the past five years is overly broad and unduly burdensome.
23 Additionally, PWCo objects to this interrogatory to the extent it requires information regarding entities
24 other than PWCo. PWCo does not provide service in Strawberry; and SWCo, the service provider
25 there, is not a party to this proceeding. Accordingly, the District is not entitled to conduct discovery
26 regarding SWCo in this proceeding. Without waiving this objection, PWCo will provide the
27 information requested in this interrogatory with respect to its meter installations during the test year
28 and the year immediately prior to the test year.
29

30 RESPONSE: *See* Attachment E.

31 RESPONDENT: Mistie Jared.
32
33
34
35

EXHIBIT

2

SHAPIRO, JAY

From: SHAPIRO, JAY

Sent: Friday, November 14, 2003 9:15 PM

To: John Gliege (E-mail)

Subject: PWCo's Objections to the District's discovery:

John--I need to follow up and clarify a matter related to the District's discovery requests, and our conversation the other day. When you mentioned the annual reports, I assumed, as did my client, that you were referring to the annual utility reports Pine Water files with the ACC's Utilities Division. These reports do not even mention Crystal Investments, let alone reflect that this entity owns Pine Water.

However, we looked further and discovered that the annual corporate disclosures for some years for Pine Water inadvertently showed Crystal Investments as a shareholder of Pine Water. This is not the case. Pine Water is owned 100% by Brooke Utilities, which in turn is owned by Crystal Investments (90%) and Robert Hardcastle (10%).

Although not relevant to Pine Water's rate case, the same is true of annual corporate disclosures for Strawberry Water, which is also owned 100% by Brooke utilities.

Thank you for bringing this matter to our attention. Steps are underway to amend any erroneous corporate filings and we would be happy to provide the District copies if they desire.

Jay

12/15/2003

EXHIBIT

3

Brooke Utilities, Inc.
Pine Water Co., Inc.
Strawberry Water Co., Inc.

December 3, 2003

Arizona Corporation Commission
c/o Annual Reports-Corporations Division
1300 West Washington
Phoenix, AZ 85007-2929

Via Airbill Number: 5732910260

Re: Request for Amended Corporation Annual Report & certificate of
Disclosure Statements

Dear Sir or Madam,

It has been brought to the attention of Brooke Utilities, Inc. that our 2000, 2001 and 2002 Annual Report & Certificate of Disclosure Statements for Pine Water Co., Inc. and Strawberry Water Co., Inc. were completed and submitted to the Commission with erroneous information.

We would like to correct this error as quickly as possible. Please accept Brooke Utilities Inc.'s request for expedited filing of the following amended Annual Report and Certificate of Disclosure Statements:

2000-2002: Strawberry Water Co., Inc.
2000-2002 Pine Water Co., Inc.
2001: Brooke Utilities, Inc.

It is my understanding the Annual Reports Division requires copies of each originally submitted report noted above with appropriate amendments. Each of the above referenced documents have been enclosed with required amendments. In addition, it is also my understanding that for each amended report a \$45.00 filing fee is required in conjunction with a \$35.00 expedite fee, or a total of \$80.00 per expedited amendment requested above.

Enclosed you will find Pine Water check number 17399 in the amount of \$240.00, which represents payment for expedited, amended reports for Pine Water(2000, 2001 and

Brooke Water L.L.C. Circle City Water Co. L.L.C. Strawberry Water Co., Inc.
Pine Water Co., Inc. Payson Water Co., Inc. Navajo Water Co., Inc. Tonto Basin
Water Co., Inc.

17371

BROOKS UTILITIES, Inc. * Bakersfield, CA
A133 ARIZONA CORPORATION COMMISSION

Dec 3 03

2003 REPORT Dec 3 03 80.00 0.00 80.00

80.00 0.00 80.00

17371

STATE UTILITIES, INC.
P.O. BOX 5228
BAKERSFIELD, CA 93302-2228

BANK OF AMERICA
1407 DIXON ROAD
BAKERSFIELD, CA 93301

CHECK NO.

1630

***** Eighty and 00/100 *****

DATE: Dec 3 03

AMOUNT: \$80.00

ARIZONA CORPORATION COMMISSION

1700 ANNAL REYNOLDS DIVISION

1500 W. WASHINGTON

PHOENIX, AZ 85007-2929



ACCOUNT NO. 01220005641: 11789-01575

17415

Strawberry Water Company, Inc.
AZIS ARIZONA CORPORATION COMMISSION

2003 Dec 3 03 240.00 0.00 240.00

240.00 0.00 240.00

STRAWBERRY WATER COMPANY, INC.
P.O. Box 6218
BIRMINGHAM, AL 35206-2218

MARK J. ALBERTA
444 CULBERTSON AVE
BIRMINGHAM, AL 35206

LEAK
1220

CHECKED

***** Two Hundred Forty and 00/100 *****

DATE Dec 3 03 5240.00

ARIZONA CORPORATION COMMISSION
640 ANNUL REPORTS
1300 WEST WASHINGTON
PHOENIX, AZ 85007-2929

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STATE OF ARIZONA
CORPORATION COMMISSION
CORPORATION ANNUAL REPORT
& CERTIFICATE OF DISCLOSURE



DUE ON OR BEFORE 12/02/2002

FY02-03

-FILING FEE \$45.00

The following information is required by A.R.S. §§10-1022 & 10-1027 for all corporations organized and existing in Arizona Revised Statutes. This is the Corporation's primary responsibility to prepare this form in A.R.S. §§10-1021.A & 10-1021.B. YOUR REPORT MUST BE SUBMITTED ON THIS ORIGINAL FORM. Make changes or corrections where necessary. Information for the report should reflect the current status of the corporation. See instructions for proper format. RETURN TO THE INSTRUCTIONS ON PAGE 2.

RECEIVED

NOV 18 2002

ARIZONA STATE COMMISSION
CORPORATION DIVISION

1. -0022715-6
STYRENEBURY WATER CO., INC.
PO BOX 22218
BAKERSFIELD, CA 93380

Business Phone: _____ Business Home: _____
State of Origin: ARIZONA Type of Corporation: BUSINESS

2. Statutory Agent: ROBERT F. HANCOCK
Mailing Address: BROOKS TELETYPE INC
1311 10 AVENUE NW
City, State, Zip: FAYETTE, AL 36221

Physical Address: 11 HICKORY
Physical Address:
City, State, Zip:

MEMBER	108
115	11-10-02
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Use this box only if appointing a new Statutory Agent.
If appointing a new Statutory Agent, the new agent MUST consent to the appointment by signing below.

I, the undersigned, do hereby consent to the appointment of the above named person as Statutory Agent for the above named corporation and I agree to be bound by the terms of the appointment.

Signature of new Statutory Agent

3. Secondary Address
Foreign Corporation: NO
Resident: YES
Out of State: NO

4. Check the one category or more of best describes the CHARACTER OF BUSINESS of your corporation.

WOMEN'S BUSINESS	NON-WOMEN'S BUSINESS
<input type="checkbox"/> 1. Manufacturing	<input type="checkbox"/> 1. Manufacturing
<input type="checkbox"/> 2. Retail	<input type="checkbox"/> 2. Retail
<input type="checkbox"/> 3. Wholesale	<input type="checkbox"/> 3. Wholesale
<input type="checkbox"/> 4. Transportation	<input type="checkbox"/> 4. Transportation
<input type="checkbox"/> 5. Finance	<input type="checkbox"/> 5. Finance
<input type="checkbox"/> 6. Insurance	<input type="checkbox"/> 6. Insurance
<input type="checkbox"/> 7. Real Estate	<input type="checkbox"/> 7. Real Estate
<input type="checkbox"/> 8. Other	<input type="checkbox"/> 8. Other
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AMENDED

12-103

0822218 - SCHWABER WATER CO., INC.

Page 2

5. **CAPITALIZATION:** (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)
 If a corporation is not a sole proprietor or partnership, list by number, amounting to the number of shares in the corporation. Please include the corporation's original Address and Incorporation for the amount of shares authorized. Please also include the corporation's original and current number of shares for the amount of shares authorized. Please print or type clearly.

Number of Shares Authorized:

Class:

Series or Plan Class, if any:

1000 Shares

Number of Shares Currently Issued:

Class:

Series or Plan Class, if any:

1000 Shares

6. **SHAREHOLDERS:** (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)
 List the individual holder's name, the stock of any class or shares issued by the corporation, the number of shares, and the date of acquisition. Please print or type clearly.

→ stock → NONE ☒ Name Brooke Whitton, Owner

NONE ☒Name Brooke Whitton, Owner

7. **OFFICERS:** Please Type or Print Clearly. You must list at least one.

Name: Robert HardcastleName: Lee JamiesonTitle: PresidentTitle: Secretary / TreasurerAddress: PO Box 82218 82218
Enterprise, CA 95380Address: PO Box 82218 82218
Enterprise, CA 95380Date taking office: August 1996Date taking office: August 1996Name: Charlie McLean

Name: _____

Title: Vice President

Title: _____

Address: PO Box 82218 82218
Enterprise, CA 95380

Address: _____

Date taking office: August 1996

Date taking office: _____

8. **DIRECTORS:** Please Type or Print Clearly. You must list at least one.

Name: Robert HardcastleName: Lee JamiesonAddress: PO Box 82218 82218
Enterprise, CA 95380Address: PO Box 82218 82218
Enterprise, CA 95380Date taking office: August 1996Date taking office: August 1996Name: Charlie McLean

Name: _____

Address: PO Box 82218 82218
Enterprise, CA 95380

Address: _____

Date taking office: August 1996

Date taking office: _____

Name of the Corporation *Strawberry Water Co., Inc.*

9. A MANUAL DISCLOSURE (A.R.S. §§10-1071 & 10-1072 A.D.)

has been filed with the Arizona Secretary of State for the purpose of making the same available to the public for inspection and copying.

10. MEMORANDUM (A.R.S. § 10-1072 A.D.)

The company does ☒ does not ☐ have a memorandum.

11. CERTIFICATE OF DISCLOSURE (A.R.S. §§10-1071 & 10-1072 A.D.)

has been filed with the Arizona Secretary of State for the purpose of making the same available to the public for inspection and copying.

1. Does the company have a policy of not disclosing information to the public?
2. Does the company have a policy of not disclosing information to the public?
3. Does the company have a policy of not disclosing information to the public?
4. Does the company have a policy of not disclosing information to the public?

Is the company a public utility? ☐ YES ☒ NO

Does the company have a policy of not disclosing information to the public? ☐ YES ☒ NO

12. STATEMENT OF HANDICAP (A.R.S. §§10-1071 & 10-1072 A.D.)

1. Does the company have a policy of not disclosing information to the public?
2. Does the company have a policy of not disclosing information to the public?
3. Does the company have a policy of not disclosing information to the public?
4. Does the company have a policy of not disclosing information to the public?

Does the company have a policy of not disclosing information to the public? ☐ YES ☒ NO

13. SIGNATURE

Signature of the President or other officer of the corporation.

Signature of the Secretary or other officer of the corporation.

Signature of the Treasurer or other officer of the corporation.

Signature of the Controller or other officer of the corporation.

Signature of the Auditor or other officer of the corporation.

Signature of the President or other officer of the corporation.

ALL INFORMATION CONTAINED HEREIN IS UNCLASSIFIED

附錄四 表 10-1 續

RECEIVED

444 - 2 2881

THE UNIVERSITY OF CHICAGO PRESS

References

DET 5 0 2000

Abstract

Use this form only if creating a new directory entry

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Figure 1

Figure 2

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Figure 6 *Continued*

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1. (Print name of firm, corporation or individual company) having been designated the sole
 beneficiary of the life insurance policy, the beneficiary shall not be subject to investigation
 pursuant to this Act.

Signature of new Subj. for Agent

RECEIVED

Page 2 of 2

5. Secondary findings

SECRET

1. State the one principal business which constitutes the CHARACTER OF BUSINESS of your corporation.

- | | | | |
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| 85. ... | 99. ... | 100. ... | 101. ... |
| 86. ... | 100. ... | 101. ... | 102. ... |
| 87. ... | 101. ... | 102. ... | 103. ... |

http://images.cc.state.az.us/scripts/cgi/dwispart2.pl?COMMAND=4&SESSIONID=ya6ZT... 12/1/2003

-0822715-6 Page 2
 B. CAPITAL STRUCTURE: ~~Indicate the number of shares of each class of stock owned by the corporation, and the number of shares of each class of stock owned by the corporation, and the number of shares of each class of stock owned by the corporation.~~
 Number of Shares/Options Authorized Class Number Within Class (if any)

1000000 Preferred Stock

1000000 Common Stock

C. SHAREHOLDERS: ~~Indicate the names of all persons who own or hold more than 1% of the total number of shares of any class of stock of the corporation, or who have more than a 1% beneficial interest in the corporation. Please Type or Print Name.~~

NAME: Brook, William J. - One

1. DIRECTOR: Please Type or Print Name.

Name: Robert T. Haddock Title: President

Title: President Address: PO Box 82219

Address: Bakersfield, CA 93392

Date taking office: 8/96

Name: Charles E. Moore Title:

Title: Secretary Address: PO Box 82219

Address: Bakersfield, CA 93392

Date taking office: 8/96

Date taking office:

2. DIRECTOR: Please Type or Print Name.

Name: Robert T. Haddock Title: President

Title: President Address: PO Box 82219

Address: Bakersfield, CA 93392

Date taking office: 8/96

Name: Charles E. Moore Title:

Title: Secretary Address: PO Box 82219

Address: Bakersfield, CA 93392

Date taking office: 8/96

Date taking office:

[illegible]



STATE OF ARIZONA
CORPORATION COMMISSION
CORPORATION ANNUAL REPORT
& CERTIFICATE OF DISCLOSURE



DUE ON OR BEFORE 12/31/2003

FIC03-03

FILING FEE: \$45.00

The following information is required by A.R.S. §§10-1572 & 10-1573 for all corporate shareholders registered in Arizona Revised Statutes Title 10. The Commission's Electronic Reporting System is available for use at A.R.S. §§10-1572 A & 10-1573 A. YOUR REPORT MUST BE SUBMITTED ON THE ONLINE FORM. Make changes or corrections where necessary. Information for the report should reflect the current status of the corporation. See instructions for proper format. REFER TO THE INSTRUCTIONS ON PAGE 4.

1. -0822714-3
PINE WATER CO., INC.
PO BOX 82214
BAKERSFIELD, CA 93380

RECEIVED

NOV 18 2002

ARIZONA CORP COMMISSION
CORPORATION DIVISION

SEE NEXT PAGE: _____ In State of Arizona
State of Arizona ARIZONA Type of Corporation: **SUBSIDIARY**

2. Registered Agent: ROBERT T. KROGSTADT
Mailing Address: 1111 N. RIVINGTON RD
City, State, Zip: PAVAN, AZ 85621

Physical Address: _____
City, State, Zip: _____

ACCOUNT NO. 1
45
11/28/02
Name: _____
Address: _____
City, State, Zip: _____
Account: _____

Use this box only if appointing a new Statutory Agent.
If appointing a new Statutory Agent, the new agent MUST consent to that appointment by signing below.

I, _____, do hereby consent to my appointment as Statutory Agent for the above corporation and to the powers and duties of that office.

I, _____, do hereby consent to my appointment as Statutory Agent for the above corporation and to the powers and duties of that office.

3. Current Secretary Address:
(If Agent, Controller, or Secretary is different, please complete this section.)

4. Check the box or boxes below which best describes the CHARACTER OF BUSINESS of your corporation.

- | | | |
|--|---|--|
| <input type="checkbox"/> Manufacturing
<input type="checkbox"/> Wholesale
<input type="checkbox"/> Retail
<input type="checkbox"/> Service
<input type="checkbox"/> Transportation
<input type="checkbox"/> Finance
<input type="checkbox"/> Insurance
<input type="checkbox"/> Real Estate
<input type="checkbox"/> Other | <input type="checkbox"/> Agriculture
<input type="checkbox"/> Mining
<input type="checkbox"/> Lumber
<input type="checkbox"/> Transportation
<input type="checkbox"/> Finance
<input type="checkbox"/> Insurance
<input type="checkbox"/> Real Estate
<input type="checkbox"/> Other | <input type="checkbox"/> Other
<input type="checkbox"/> Other
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<input type="checkbox"/> Other
<input type="checkbox"/> Other |
|--|---|--|

Completed
11-30-03

-0822714-S PINE WATER CO., INC.

Page 2

5. CAPITALIZATION: (Business Corporations and Business Trusts are **PROHIBITED** to complete this section.)
 Indicate the number of shares of each class of stock authorized by the corporation and the number of shares of each class actually issued. Please enter the correct number of shares of each class of stock authorized by the corporation and the number of shares actually issued. Please Print or Type Clearly.

NUMBER OF SHARES OF EACH CLASS AUTHORIZED

1,000 Shares

Common

NUMBER OF SHARES OF EACH CLASS ISSUED

1,000 Shares

Common

6. SHAREHOLDERS: (Business Corporations and Business Trusts are **PROHIBITED** to complete this section.)
 List the names and addresses of all persons who own or hold any shares of the corporation as of the date of filing this statement. Please Type or Print Clearly.

~~Should be~~ ~~Name~~ ~~Address~~ ~~Date Acquired~~

NAME ☐Name Brooke Utilities Inc

7. OFFICERS Please Type or Print Clearly. You must list at least One.

Name: Robert T. HarcourtName: Lee JamesonTitle: PresidentTitle: Secretary / TreasurerAddress: PO Box 82218
Enterprise CA 95580Address: PO Box 82218
Enterprise CA 95580Date Acquired: August 1996Date Acquired: August 1996Name: Charlie McCaw

Name: _____

Title: Vice President

Title: _____

Address: PO Box 82218
Enterprise CA 95580

Address: _____

Date Acquired: August 1996

Date Acquired: _____

8. DIRECTORS Please Type or Print Clearly. You must list at least One.

Name: Robert T. HarcourtName: Lee JamesonAddress: PO Box 82218
Enterprise CA 95580Address: PO Box 82218
Enterprise CA 95580Date Acquired: August 1996Date Acquired: August 1996Name: Charlie McCaw

Name: _____

Address: PO Box 82218
Enterprise CA 95580

Address: _____

Date Acquired: August 1996

Date Acquired: _____



STATE OF ARIZONA
CORPORATION COMMISSION
CORPORATION ANNUAL REPORT
& CERTIFICATE OF DISCLOSURE

Amount Reported on Corporation



FILE ON OR BEFORE 12/02/2001

FY01-02

FEILING FEE \$45.00

The following information is required by A.R.S. §10-1502 & is to be provided by all corporations registered in Arizona. Please
submit this information to the Corporation Commission by the deadline date. This form is to be submitted to the
Commission by the deadline date. This form is to be submitted to the Commission by the deadline date. This form is to be
submitted to the Commission by the deadline date. This form is to be submitted to the Commission by the deadline date.

0022714-2
STAR WATER CO., INC.
PO BOX 82216
BAXTERSPRING, CA 93340

RECEIVED

DEC 28 2001

ARIZONA CORP. COMMISSION
CORPORATION DIVISION

Arizona Secretary of State
State of Arizona

Arizona Secretary of State
State of Arizona

RECEIVED

DEC 17 2001

ARIZONA CORP. COMMISSION
CORPORATION DIVISION

Arizona Secretary of State
State of Arizona
1011 S. STOVER RD
PATSON, AZ 85641

Copy to 20.

NO. 141916
45

Use this form only if appointing a new Statutory Agent.
Appointing a new Statutory Agent. The new agent MUST be a resident of Arizona.

The Statutory Agent of the Corporation must be a resident of Arizona. The Statutory Agent must be a resident of Arizona. The Statutory Agent must be a resident of Arizona.

Signature of new Statutory Agent

307572 525454

Statutory Agent's Address
Patson, AZ 85641
Patson, AZ 85641

Check the box that describes the type of corporation. If the corporation is a foreign corporation, check the box for foreign corporation.

Domestic Corporation	Foreign Corporation
1. Sole Proprietorship	1. Sole Proprietorship
2. Partnership	2. Partnership
3. Limited Liability Partnership	3. Limited Liability Partnership
4. Limited Liability Company	4. Limited Liability Company
5. Corporation	5. Corporation
6. Non-Profit Corporation	6. Non-Profit Corporation
7. Foreign Corporation	7. Foreign Corporation
8. Foreign Partnership	8. Foreign Partnership
9. Foreign Limited Liability Partnership	9. Foreign Limited Liability Partnership
10. Foreign Limited Liability Company	10. Foreign Limited Liability Company
11. Foreign Corporation	11. Foreign Corporation
12. Foreign Partnership	12. Foreign Partnership
13. Foreign Limited Liability Partnership	13. Foreign Limited Liability Partnership
14. Foreign Limited Liability Company	14. Foreign Limited Liability Company
15. Foreign Corporation	15. Foreign Corporation
16. Foreign Partnership	16. Foreign Partnership
17. Foreign Limited Liability Partnership	17. Foreign Limited Liability Partnership
18. Foreign Limited Liability Company	18. Foreign Limited Liability Company
19. Foreign Corporation	19. Foreign Corporation
20. Foreign Partnership	20. Foreign Partnership
21. Foreign Limited Liability Partnership	21. Foreign Limited Liability Partnership
22. Foreign Limited Liability Company	22. Foreign Limited Liability Company

Completed
12/3/03

8008755-5 FINE WARE CO., INC.

3. CAPITALIZATION: Shareholders and Partners must be REQUIRED to complete the uniform
 Business Plan and indicate the amount of 25% minimum investment to be received working their operation. Shareholders
 must detail:

Number of Shares/Partners to be sold: 1,000 Class: Common Number of Shares/Partners: 1,000 Class: Common

4. SHAMMON OFFER, Shareholders and Partners must be REQUIRED to complete the uniform
 Business Plan and indicate the amount of 25% minimum investment to be received working their operation. Shareholders
 must detail: no = Please type or print clearly.

Should be = Name Brooke Williams, Inc.

5. OFFICERS Please type or print clearly.

Name:	Robert T. Hancock	Title:	President
Address:	PO Box 82218 Bakersfield CA 93308	Name:	Lyn J. Hancock
		Title:	Secretary/Treasurer
		Address:	PO Box 82218 Bakersfield CA 93308

Date taken of office: 05-1992

Name:	Charles McCas	Title:	Vice President
Address:	PO Box 82218 Bakersfield CA 93308	Name:	
		Title:	
		Address:	

Date taken of office: 05-1992

6. DIRECTORS Please type or print clearly.

Name:	Robert T. Hancock	Title:	President
Address:	PO Box 82218 Bakersfield CA 93308	Name:	Lyn J. Hancock
		Title:	Secretary/Treasurer
		Address:	PO Box 82218 Bakersfield CA 93308

Date taken of office: 05-1992

Name:	Charles McCas	Title:	Vice President
Address:	PO Box 82218 Bakersfield CA 93308	Name:	
		Title:	
		Address:	

Date taken of office: 05-1992

Page 3 of 3

5. FINANCIAL DISCLOSURE (A.R.S. §§10-1222 & 10-1223 A)

The filer certifies that the information provided in this report is true and correct to the best of the filer's knowledge and belief, and that the filer is not aware of any material misstatements or omissions in the information provided.

6. CERTIFICATE OF DISCLOSURE (A.R.S. §§10-1222 & 10-1223 A)

The filer certifies that the information provided in this report is true and correct to the best of the filer's knowledge and belief, and that the filer is not aware of any material misstatements or omissions in the information provided.

1. The filer is not a director, officer, or shareholder of the corporation.
2. The filer is not a director, officer, or shareholder of the corporation.
3. The filer is not a director, officer, or shareholder of the corporation.

One box must be marked: YES ☒ NO ☐

7. The filer is not a director, officer, or shareholder of the corporation.

- | | |
|---|---|
| 1. The filer is not a director, officer, or shareholder of the corporation. | 2. The filer is not a director, officer, or shareholder of the corporation. |
| 3. The filer is not a director, officer, or shareholder of the corporation. | 4. The filer is not a director, officer, or shareholder of the corporation. |

8. STATEMENT OF BANKRUPTCY (A.R.S. §§10-1222 & 10-1223 A)

The filer certifies that the information provided in this report is true and correct to the best of the filer's knowledge and belief, and that the filer is not aware of any material misstatements or omissions in the information provided.

One box must be marked: YES ☒ NO ☐

9. The filer is not a director, officer, or shareholder of the corporation.

10. The filer is not a director, officer, or shareholder of the corporation.

11. SIGNATURE

CAUTION: Annual Report must be signed by a duly authorized officer of the corporation.

12. The filer is not a director, officer, or shareholder of the corporation.

13. The filer is not a director, officer, or shareholder of the corporation.

14. The filer is not a director, officer, or shareholder of the corporation.

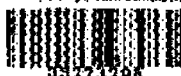
15. The filer is not a director, officer, or shareholder of the corporation.

16. The filer is not a director, officer, or shareholder of the corporation.



**CORPORATION COMMISSION
CORPORATION ANNUAL REPORT
& CERTIFICATE OF DISCLOSURE**

Arizona Corporation Commission



DATE ON OR BEFORE 12/02/2006

FISC-01

FEE \$42.00

The following information is required by A.R.S. §10-102 for all corporations organized or chartered pursuant to Arizona Revised Statutes, Title 10. The Commission's interest in corporate records is limited to the information required by the statute. Information for the history of the corporation is not required. The corporation is responsible for the accuracy of the information provided. The corporation is responsible for the accuracy of the information provided. The corporation is responsible for the accuracy of the information provided.

1. FIRM NUMBER CC., INC.
PO BOX 22218
SANTANA, AZ 85380

RECEIVED

JAN 02 2007

ARIZONA CORPORATION COMMISSION

Business Name: CC., INC.
State of Incorporation: ARIZONA Type of Corporation: PROFESSIONAL

RECEIVED

OCT 31 2006

ARIZONA CORPORATION COMMISSION

2. Arizona Statutory Agent: JOHN J. STANLEY
Street Address: 1011 S. STANLEY RD
CITY: SCOTTSDALE
State: AZ Zip: 85261

ACK 100 ONLY
For 1
Firm 1
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On this day only if appointing a new Statutory Agent

I, JOHN J. STANLEY, (corporation or other entity company) having been designated by the

Statutory Agent, do hereby consent to this appointment and my removal or resignation

provided to me.

Signature of new Statutory Agent

RECEIVED

JAN 02 2007

ARIZONA CORPORATION COMMISSION

3. JOHN J. STANLEY
1011 S. STANLEY RD
SCOTTSDALE, AZ 85261

4. Check the one category below which best describes the CHARACTER OF BUSINESS of your corporation.

- | BUSINESS CHARACTERISTICS | | NON-PROFIT CORPORATION |
|--------------------------|-------------------------|------------------------|
| 1. Accounting | 10. Real Estate | 1. Charitable |
| 2. Advertising | 11. Retail Store | 2. Educational |
| 3. Automobile | 12. Manufacturing | 3. Cultural |
| 4. Agriculture | 13. Publishing/Printing | 4. Civic |
| 5. Aviation | 14. Restaurant/Bar | 5. Religious |
| 6. Banking/Finance | 15. Retail Store | 6. Religious |
| 7. Business Development | 16. Retail Store | 7. Religious |
| 8. Construction | 17. Retail Store | 8. Religious |
| 9. Consulting | 18. Retail Store | 9. Religious |
| 10. Credit/Collection | 19. Retail Store | 10. Religious |
| 11. Education | 20. Retail Store | 11. Religious |
| 12. Engineering | 21. Retail Store | 12. Religious |
| 13. Entertainment | 22. Retail Store | 13. Religious |
| 14. Environmental | 23. Retail Store | 14. Religious |
| 15. Food/Beverage | 24. Retail Store | 15. Religious |
| 16. Health Care | 25. Retail Store | 16. Religious |
| 17. Insurance | 26. Retail Store | 17. Religious |
| 18. International | 27. Retail Store | 18. Religious |
| 19. Labor/Union | 28. Retail Store | 19. Religious |
| 20. Legal | 29. Retail Store | 20. Religious |
| 21. Life Insurance | 30. Retail Store | 21. Religious |
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| 252. Life Insurance | 261. Retail Store | 252. Religious |
| 253. Life Insurance | 262. Retail Store | 253. Religious |
| 254. Life Insurance | 263. Retail Store | 254. Religious |
| 255. Life Insurance | 264. Retail Store | 255. Religious |
| 256. Life Insurance | 265. Retail Store | 256. Religious |
| 257. Life Insurance | 266. Retail Store | 257. Religious |
| 258. Life Insurance | 267. Retail Store | 258. Religious |
| 259. Life Insurance | 268. Retail Store | 259. Religious |
| 260. Life Insurance | 269. Retail Store | 260. Religious |
| 261. Life Insurance | 270. Retail Store | 261. Religious |
| 262. Life Insurance | 271. Retail Store | 262. Religious |
| 263. Life Insurance | 272. Retail Store | 263. Religious |
| 264. Life Insurance | 273. Retail | |

5. CAPITALIZATION: ~~Indicate the number of shares of common stock owned by each shareholder as of the date of the filing of this statement.~~
 Business units shall indicate the number of shareholder's certificates held by business unit(s) preceding their beneficial interest in the unit(s). 0822714-5

Number of Shares/Class(es) Authorized _____ Class _____ Series Written Class (if any) _____

Number of Shares/Certificates Issued _____ Class _____ Series Written Class (if any) _____

6. SHAREHOLDERS: ~~Indicate the number of shares of common stock owned by each shareholder as of the date of the filing of this statement.~~
 List shareholders holding more than 1% of any class of shares issued by the corporation, or having more than a 1% beneficial interest in the corporation. Please Type or Print Clearly.

NONE ☒ Brooks White, Inc.
 Name _____
 Number _____
 Name _____

7. DIRECTORS: Please Type or Print Clearly.

Name: Robert T. Macdonald	Name: Charles McCann
Title: President	Title: Secretary
Address: PO Box 22218	Address: PO Box 22218
Address: Berkeley, CA 94704	Address: Berkeley, CA 94704
Date taking office: 8/7/00	Date taking office: 8/7/00

Date taking office: _____ Date taking office: _____

Name: Lee Jacobson	Name: _____
Title: Vice President	Title: _____
Address: PO Box 22218	Address: _____
Address: Berkeley, CA 94704	Address: _____
Date taking office: 8/7/00	Date taking office: _____

Date taking office: _____ Date taking office: _____

8. DIRECTORS: Please Type or Print Clearly.

Name: Robert T. Macdonald	Name: Charles McCann
Title: President	Title: Secretary
Address: PO Box 22218	Address: PO Box 22218
Address: Berkeley, CA 94704	Address: Berkeley, CA 94704
Date taking office: 8/7/00	Date taking office: 8/7/00

Date taking office: _____ Date taking office: _____

Name: Lee Jacobson	Name: _____
Title: Vice President	Title: _____
Address: PO Box 22218	Address: _____
Address: Berkeley, CA 94704	Address: _____
Date taking office: 8/7/00	Date taking office: _____

Date taking office: _____ Date taking office: _____

Only use of a translation must appear in the title page (company should specify design, machine, etc.). All other terms of construction are covered in the body of the document.

This company ~~does~~ ☐ ~~does not~~ ☒ not member

~~THE ABOVE INFORMATION WAS OBTAINED FROM A SOURCE WHOSE CREDIBILITY HAS NOT BEEN ESTABLISHED BY THE FBI. IT IS BEING FURNISHED FOR YOUR INFORMATION ONLY AND SHOULD NOT BE USED IN ANY MANNER THAT COULD BE DETRIMENTAL TO THE NATIONAL DEFENSE.~~

1. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?
2. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?
3. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?
4. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?
5. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?
6. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?
7. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?
8. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?
9. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?
10. On what date is the agreement or arrangement made, and what is the nature of the agreement or arrangement?

1. The name of the person or persons who are the author(s) of the work, or
2. The name of the person or persons who are the publisher(s) of the work, or
3. The name of the person or persons who are the owner(s) of the work.

~~XXXXXXXXXXXX~~ YES ☐ NO ☒

1. The following information is being furnished to you for your information and is not to be used for any other purpose without the express written consent of the Bureau of the Census.

- | | |
|---|--|
| 1. Full name and your home address | 2. State and location of shop |
| 2. Full birth date | 3. Shop's Supply Number |
| 3. Present phone address | 4. Government's identification number or passport number and its date and number. Be clear and put in every number, and write or print the number of the class |
| 4. Your address for correspondence (provide 3 with details) | |

1. I, JOHN J. HARRIS, of the County of San Diego, State of California, do hereby certify that the foregoing is a true and correct copy of the original as the same appears in the files of the San Diego County Sheriff's Office, and that the same is a true and correct copy of the original as the same appears in the files of the San Diego County Sheriff's Office.

YES ☐ NO ☒

Chapter _____ Date Filed _____ Class Meeting _____

• Stress-Strain

DECLARE, UNDER PENALTY OF LAW, THAT ALL CORPORATE FEDERAL TAX RETURNS REQUIRED BY TITLE 42 OF THE ILLINOIS REVISED STATUTES HAVE BEEN FILED WITH THE APPROPRIATE DEPARTMENT OF REVENUE.

1. 凡在本行開辦之各項業務，均應遵守本行所定之各項規章，並應隨時注意本行所定之各項規章，如有違反者，本行將依法究辦。

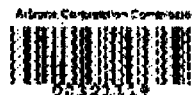
Signature

700

(Revised) under the duly authorized corporate officers. Signed in Section 7 of this report.



STATE OF ARIZONA
CORPORATION COMMISSION
CORPORATION ANNUAL REPORT
& CERTIFICATE OF DISCLOSURE



DATE ON OR BEFORE 08/27/2001

FY01-02

FILING FEE \$45.00

The following information is required by A.R.S. §§10-1022 & 10-1022 for all corporations organized pursuant to Arizona Revised Statutes. The Commission's authority to enforce this act is A.R.S. §§10-121A & 10-312A. YOUR REPORT MUST BE SUBMITTED BY THE DEADLINE DATE. Make changes or corrections where necessary. Information for the report should reflect the current status of the corporation. See instructions for proper format. REFER TO THE INSTRUCTIONS ON PAGE 1.

1. -6776551-6
BRIDGE UTILITIES, INC.
P O BOX 22313
BIRMINGHAM, CA 91180

RECEIVED

JUN 06 2001

ARIZONA CORP COMMISSION
CORPORATIONS ORDER

Business Prior: (BUSINESS PHONE NUMBER)
State of Domicile: ARIZONA Type of Corporation: BUSINESS

2. Arizona Statutory Agent: C-C CORPORATION SYSTEM
Street Address: 3435 W. WILLOW ST.
RICHMOND, AZ 85022
City, State, Zip:

Robert T. Hardcastle
c/o Bridge Utilities
1011 W. 12th St.
Phoenix, AZ 85041

AGG. ASSETS	\$100,000
Net Worth	\$50,000
Net Income	\$10,000
Expenses	\$5,000
Retained Earnings	\$10,000

Use this box only if appointing a new statutory agent. The new agent MUST be listed in this appointment by the State of Arizona.

I, the undersigned, do hereby certify that the above information is true and correct to the best of my knowledge and belief, and I am not aware of any material misstatements or omissions.

Signature of New Statutory Agent

3. Secondary Address
Physical Corporation and
Statutory Agent Address
This section is optional.

4. CHECK THE ONE CATEGORY BELOW WHICH BEST DESCRIBES THE CHARACTER OF BUSINESS OF YOUR CORPORATION.

- | BUSINESS CORPORATIONS | NON-PROFIT CORPORATIONS |
|------------------------|-------------------------|
| 1. Manufacturing | 1. Charitable |
| 2. Mining | 2. Educational |
| 3. Agriculture | 3. Religious |
| 4. Lumber | 4. Scientific |
| 5. Other | 5. Other |
| 6. Public Utility | 6. Other |
| 7. Service Corporation | 7. Other |
| 8. Other | 8. Other |
| 9. Other | 9. Other |
| 10. Other | 10. Other |
| 11. Other | 11. Other |
| 12. Other | 12. Other |
| 13. Other | 13. Other |
| 14. Other | 14. Other |
| 15. Other | 15. Other |
| 16. Other | 16. Other |
| 17. Other | 17. Other |
| 18. Other | 18. Other |
| 19. Other | 19. Other |
| 20. Other | 20. Other |

-0776551-6 BROOKS UTILITIES, INC.

Page 2

6. **CAPITALIZATION:** (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)
 Registering Agents must indicate the number of transferable securities held by the filer, including their beneficial interest in the trust assets.

Number of Shares/Certificates Issued: 1000 Class: Common Series Within Class (if any):

Number of Shares/Certificates Issued: 1000 Class: Common Series Within Class (if any):

7. **SHAREHOLDERS:** (Business Corporations and Business Trusts are **REQUIRED** to complete this section.)
 List shareholders holding more than 1% of any class of shares issued by the corporation, or having more than a 2% beneficial interest in the corporation. Please Type or Print Clearly.

None ☒ Crystal Commitments 12/1/03

Name: _____ Name: _____

7. **OFFICERS:** Please Type or Print Clearly.

Name: Robert J. Harkins	Name: Lee Benjamin
Title: President	Title: Vice President
Address: PO Box 82218	Address: PO Box 82218
Hickory Hill, CA 95340	Hickory Hill, CA 95340
Authorized: Date Taking Office: 8/7/00	Authorized: Date Taking Office: 8/7/00

Date taking office: _____ Date taking office: _____

Name: _____ Name: _____

Title: Charles McLean	Title: _____
Secretary	Secretary
Address: PO Box 82218	Address: _____
Hickory Hill, CA 95340	Hickory Hill, CA 95340
Authorized: Date Taking Office: 8/7/00	Authorized: _____

Date taking office: _____ Date taking office: _____

8. **DIRECTORS:** Please Type or Print Clearly.

Name: Robert J. Harkins	Name: Lee Benjamin
Title: President	Title: Vice President
Address: PO Box 82218	Address: PO Box 82218
Hickory Hill, CA 95340	Hickory Hill, CA 95340
Authorized: Date Taking Office: 8/7/00	Authorized: Date Taking Office: 8/7/00

Date taking office: _____ Date taking office: _____

Name: _____ Name: _____

Title: Charles McLean	Title: _____
Secretary	Secretary
Address: PO Box 82218	Address: _____
Hickory Hill, CA 95340	Hickory Hill, CA 95340
Authorized: Date Taking Office: 8/7/00	Authorized: _____

Date taking office: _____ Date taking office: _____

EXHIBIT

4

**LAW OFFICE OF
JOHN G. GLIEGE**

P.O. Box 1388
Flagstaff, Arizona 86002-1388

Phone: 928 380 0159

jgliege@earthlink.net

December 8, 2003

Jay L. Shapiro
Patrick Black
Fennemore Craig
3003 North Central Ave. Ste 2600
Phoenix, AZ 85012-2913

JAY SHAPIRO

DEC 13 2003

ACTION _____

Gentlemen:

First of all, I have chosen to follow Mr. Shapiro's suggestion and have written to the Chief Counsel of the Arizona Corporation Commission regarding my concerns about the impact upon the integrity of the hearing process of the relationship between Mr. Black and the Corporation Commission. A copy of that letter is enclosed.

In an effort to not be accused of being pernicious I am writing to you to advise you that the Pine Strawberry Water Improvement District has become aware that some of the property owners within the District are considering circulating a petition to authorize the District to incur necessary expenditures to acquire the water systems in Pine and Strawberry.

As I am certain you are well aware, under the law of the State of Arizona the embarking on the petitioning process does not automatically mean that a condemnation proceeding will ever occur. There are many steps which must be undertaken commencing with the obtaining of sufficient signatures on the petitions to incur the expenses. If sufficient signatures are obtained, there is a formal legal proceeding which must be followed by the District to finance the activities upon which it desires to embark. I point this out to you in light of the position which you have repeatedly taken that the District is attempting to use the Corporation Commission proceeding as a part of some effort to condemn the Pine Water Company.

The issue in a condemnation proceeding, assuming you would not be challenging the right of the District to condemn the property, is one of determining the fair value of the property at the time provided by law for making such a determination.

Gentlemen, we are not there, nor are we attempting to use this Corporation Commission hearing for that purpose. While petitions may be circulating, until such time as there are sufficient signatures as to confer upon the Board of Directors of the District the power to incur such expenses, the District cannot engage in condemnation activities.

Should you have any questions regarding this activity please contact this office.

LAW OFFICE OF JOHN G. GLIEGE



John G. Gliege

EXHIBIT

5

Brooke Utilities, Inc.

1110 W. Washington Street • Phoenix, AZ 85007 • (602) 633-7546

Equal Opportunity Employer • M/F/V • Disabled • Minorities • Equal Housing Opportunity • 1110 W. Washington Street • Phoenix, AZ 85007

April 23, 2003

Mistie S. Jared

Phone: 661-633-7546

Fax: 800-748-6981

E-mail: mistiej@brookeutilities.com

Arizona Department of Environmental Quality
Water Quality Division
Jim Puckett
1110 W. Washington Street
Phoenix, AZ 85007

Re: 2002 Consumer Confidence Reports: Various Companies

Dear Mr. Puckett,

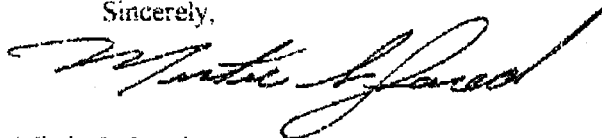
Enclosed please find copies of the Consumer Confidence Reports (CCR's) for the following public water systems/water companies:

- Circle City Water Co L.L.C.: PWS 07-112
- Strawberry Water Co., Inc: PWS 04-006
- Pine Water Co., Inc: PWS 04-043 and 04-034
- Tonto Basin Water Co Inc: PWS 04-022, 04-036, 04-047, 04-049

I anticipate forwarding a second batch of consumer confidence reports for Payson Water Co., Inc., Navajo Water Co., Inc. and Brooke Water LLC within the month.

If you have any questions or require additional information, please do not hesitate to contact me at 661-633-7546.

Sincerely,



Mistie S. Jared
Operations Manager

enclosures

Pine Water Co., Inc.
Pine, Arizona
PWS # 04-034 and 04-043
WATER QUALITY REPORT
2002

Pine Water Co., Inc. ("Pine Water") is dedicated to providing reliable, safe drinking water to its customers. In accordance with the guidelines established by the Arizona Department of Environmental Quality ("ADEQ") and the U.S. Environmental Protection Agency ("EPA") Pine Water conducts routine monitoring of the water supply for a variety of contaminants including, but not limited to, those of a biological, organic, inorganic and radioactive nature. These monitoring standards and practices were designed to identify and eliminate potential contaminants before public exposure occurs, thereby safeguarding the health of all Pine Water customers. In this regard, Pine Water is pleased to provide its customers with this informational water quality report. If you would like additional copies of this report or if you have questions regarding your drinking water please contact our customer service center at 800-270-6084, Monday-Friday 9:00am - 3:00pm. Your comments and suggestions are always welcome. You may also reach us by e-mail at pine.water@pinewaterco.com

Drinking Water Source

Drinking water originates from several different sources such as rivers, lakes, and underground aquifers. Pine Water is supplied by fifteen (15) ground wells. Water is treated at the well site, pumped through transmission lines into a complex system of approximately thirteen (13) storage tanks, eight (8) pressure tanks and ten (10) booster pumps and is subsequently delivered to each customer through distribution lines.

Water Quality Concerns

Regardless of its origin, source water may dissolve naturally occurring minerals, radioactive material, or accumulate substances resulting from the presence of animals or humans as it moves across the surface or underground. Therefore, drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that the water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the EPA's Safe Drinking Water Hotline at 800-426-4791.

In order to ensure that tap water is safe to drink, EPA prescribes regulations which limit the amount of certain contaminants in water provided by public water systems. Food and Drug Administration (FDA) regulations establish limits for contaminants in bottled water which must provide the same protection for public health.

Some people may be more vulnerable to contaminants in drinking water than the general population. Immuno-compromised persons such as persons with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune system disorder, some elderly, and infants can be particularly at risk for infections. These people should seek advice about drinking water from their health providers. EPA and Center for Disease Control ("CDC") guidelines on appropriate means to lessen the risk of infection by *Cryptosporidium* and other microbial contaminants are also available from the EPA's safe drinking water hotline at 800-426-4791.

While your drinking water meets EPA's standard for arsenic, it does contain low levels of arsenic. EPA's standard balances the current understanding of arsenic's possible health effects against balancing the cost of removing arsenic from drinking water. EPA continues to research the health effects of low levels of arsenic which is a mineral known to cause cancer in humans at high concentrations and is linked to other health effects such as skin damage and circulatory problems.

Water Quality Terms and Definitions

A definition of terms which may be used in Table 1 is provided below for your convenience.

- **Action Level.** The concentration of a contaminant which, if exceeded, triggers a treatment or other requirement which a water system must follow.
- **Maximum Contaminant Level Goal (MCLG).** The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLGs allow for a margin of safety.
- **Maximum Contaminant Level (MCL).** The highest level of a contaminant that is allowed in drinking water. MCLs are set as close to the MCLGs as feasible using the best available treatment technology.
- **pCi/L.** Picocuries per liter. A measure of radioactivity.
- **ppb.** Parts per billion or micrograms per liter.
- **ppm.** Parts per million or milligrams per liter.
- **ppt.** Parts per trillion or nanogram per liter.
- **Primary Drinking Water Standards (PDWS).** MCLs for contaminants that affect health along with their monitoring and reporting requirements and water treatment requirements.
- **Treatment Technique.** A required process intended to reduce the level of a contaminant in drinking water.
- **Secondary Drinking Water Standards (SDWS).** MCLs for contaminants that affect taste, odor, or appearance of the drinking water. Contaminants with SDWSs do not affect the health at the MCL levels.
- **Public Water System (PWS) No. 04-043:** This water system designation refers to the Portals I, Portals II, Portals III, Canyon Shadows and Hidden Pines subdivisions of Pine Water.
- **Public Water System (PWS) No. 04-034:** This water system designation includes all other subdivision served by Pine Water service not specifically noted above in PWS 04-043.

Contaminants That May Be Present In Source Water Include:

- **Microbial contaminants,** such as viruses and bacteria, which may come from sewage treatment plants, septic systems, agricultural livestock operations, and wildlife.
- **Inorganic contaminants** such as salts and metals, which can be naturally occurring or result from urban storm runoff, industrial or domestic wastewater discharges, oil, and gas production, mining or farming.
- **Pesticides and herbicides,** which may come from a variety of sources such as agriculture, urban stormwater runoff, and residential uses.
- **Organic chemicals contaminants,** including synthetic and volatile organic chemicals, which are by-products of industrial processes and petroleum production, and can also come from gas stations, urban stormwater runoff and septic systems.
- **Radioactive contaminants,** which can be naturally occurring or be the result of oil and gas production and mining activities.

TABLE 1. Detected Constituents

Microbiological Constituents					PWS 04-043		
Constituent	Units	Date Sampled	MCL	Result	Exceeds MCL?	Report Sampled	Typical Sources of Contamination
Total Coliform Bacteria	mpn	5/1/2002	>50%	Coliform present, fecal negative	Yes	Yes, negative	Naturally Present in Environment

Lead and Copper Rule					PWS 04-043		
Constituent	Units	Date Sampled	MCL	Result	Exceeds MCL?	Report Sampled	Typical Sources of Contamination
Copper	mg/l	2002	1.3	0.04	NO		Erosion of household plumbing systems, erosion of natural deposits
Lead	mg/l	2002	0.015	0.015	NO		Erosion of household plumbing systems, erosion of natural deposits

Inorganic Constituents					PWS 04-043		
Constituent	Units	Date Sampled	MCL	Result	Exceeds MCL?	Report Sampled	Typical Sources of Contamination
Ammonia	mg/l	5/1/2002	0.05	<0.0010	No		Erosion of natural deposits, runoff from orchards, runoff from gas & electronics production wastes
Nitrate	mg/l	10/15/2002	3	0.1-0.2	No		Runoff from fertilizer use, sewage, erosion of natural deposits
Sulfate	mg/l	5/1/2002	2	0.12-0.228	No		Discharge of drilling wastes, erosion of natural deposits
Fluoride	mg/l	5/1/2002	4	0.11-0.26	No		Erosion of natural deposits, water, sediments

Radiochemicals					PWS 04-043		
Constituent	Units	Date Sampled	MCL	Result	Exceeds MCL?	Report Sampled	Typical Sources of Contamination
Gamma Alpha	pCi/l	5/1/2002	15 pCi/l	3.11-7.58	No		Erosion of Natural Deposits
Combined Radium (226, 228)	pCi/l	5/1/2002	5 pCi/l	<0.6	No		Erosion of Natural Deposits
Radium 226	pCi/l	5/1/2002		<0.4	No		Erosion of Natural Deposits
Radium 228	pCi/l	5/1/2002		<0.4	No		Erosion of Natural Deposits

Continued

PWS 04-043 received a testing waiver granted by ADEQ for several synthetic organic chemicals and volatile organic chemicals in 2002 due to previous non-detect test results

2002 ADEQ Waiver

PWS 04-034

Microbiological Contaminants					
Contaminant	Lab	Date Sampled	Result	Exceeds MCL?	Percent Exceeds MCL?
Total Coliform Bacteria	mg/l	4/16/2002	<0.04	Yes	Yes, negative
Lead and Copper Rule					
Contaminant	Lab	Date Sampled	Result	Exceeds MCL?	Percent Exceeds MCL?
Copper	mg/l	2002	1.3	NO	NO
Lead	mg/l	2002	0.015	NO	NO
Inorganic Contaminants					
Contaminant	Lab	Date Sampled	Result	Exceeds MCL?	Percent Exceeds MCL?
Arsenic	mg/l	4/16/2002	0.05	NO	NO
Nitrate	mg/l	12/16/2001	5	NO	NO
Boron	mg/l	4/16/2002	1	NO	NO
Fluoride	mg/l	4/16/2002	4	NO	NO
Radiochemicals					
Contaminant	Lab	Date Sampled	Result	Exceeds MCL?	Percent Exceeds MCL?
Gross Alpha	PCU	4/16/2002	13 PCU	No	No
Combined Radon (226, 228)	PCU	5/12/2002	5 PCU	No	No
Radon 226	PCU	5/12/2002	0.1 +0.1	No	No
Radon 228	PCU	5/12/2002	<0.4	No	No

PWS 04-034 received a testing waiver granted by ADRQ for several synthetic organic chemicals and volatile organic chemicals in 2002 due to previous non-detected test results.

Conclusions

The drinking water provided to the customers of Pine Water met 2002 requirements of the Safe Drinking Water Act. In Pine Water continues to safeguard your drinking water in 2003 by conducting routine monitoring in accordance with state and federal regulations.

1 FENNEMORE CRAIG
Jay L. Shapiro (No. 014650)
2 Patrick Black (No. 017141)
3003 N. Central Ave.
3 Suite 2600
Phoenix, Arizona 85012
4 Attorneys for Pine Water Company, Inc.

5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE
APPLICATION OF PINE WATER
9 COMPANY FOR A
DETERMINATION OF THE
10 CURRENT FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY
11 AND FOR INCREASES IN ITS
RATES AND CHARGES BASED
12 THEREON FOR UTILITY SERVICE
AND FOR APPROVAL TO INCUR
13 LONG-TERM DEBT

DOCKET NO: W-03512A-03-0279

14
15
16
17
18
19 **REJOINDER TESTIMONY OF**
20 **THOMAS J. BOURASSA**
21
22
23
24
25
26

1 **I. INTRODUCTION AND PURPOSE OF REJOINDER TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS?**

3 A. Thomas Bourassa, 139 W. Wood Drive, Phoenix, Arizona 85029.

4 **Q. ARE YOU THE SAME THOMAS BOURASSA WHO FILED DIRECT AND**
5 **REBUTTAL TESTIMONY IN THIS MATTER?**

6 A. Yes.

7 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?**

8 A. I will provide rejoinder testimony on the general topics of rate base, revenues and
9 expenses, cost of capital, and rate design in response to the surrebuttal testimony of
10 the Commission Utilities Division Staff ("Staff"), the Pine Strawberry Water
11 Improvement District ("PSWID" or the "District"), and Mr. Breninger
12 ("Breninger") concerning the rate application filed by Pine Water Company ("Pine
13 Water" or the "Company"). I am also testifying in support of Rejoinder Schedules
14 A-1, B-1, B-2, B-5, C-1, C-2, D-1, D-2, D-4, H-1, H-2, H-3, and H-4.

15 **Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?**

16 A. I will provide a summary of the issues I address and then describe the Company's
17 rejoinder positions on these issues. If I do not respond to a specific proposal,
18 adjustment argument or other assertion of Staff, the District or any other party, it
19 does not mean that the Company accepts that position.

20 **II. SUMMARY OF REJOINDER TESTIMONY**

21 **Q. HAS THE COMPANY CHANGED ITS REQUESTED REVENUE**
22 **INCREASE FROM ITS REBUTTAL FILING?**

23 A. Yes. The Company's requested increase is reduced to approximately \$87,900, or
24 13.5%, from \$267,000, or 41%, at the time of the Company's rebuttal filing. The
25 main reason is that the Company has removed test year Project Magnolia
26 transportation expenses, also known as wheeling fees, in the amount of \$174,645

1 from operating expenses. Instead, the Company proposes to amend the existing
2 Water Augmentation Surcharge Tariff ("Surcharge Tariff") to include, on a
3 permanent basis, recovery of the actual costs of the water purchased from
4 Strawberry Water and delivered through Brooke Utilities' Project Magnolia, in
5 addition to the water hauling costs that are already covered under the Surcharge
6 Tariff.

7 **Q. WILL CHANGING THE MANNER OF RECOVERY FOR THESE**
8 **PROJECT MAGNOLIA COSTS IMPACT RATEPAYERS?**

9 A. Not really. Customers will still pay for the costs of buying water and having it
10 delivered through the pipeline owned by Brooke Utilities, Inc. ("BUI"). Now,
11 however, they will pay the costs in the same manner that other water augmentation
12 costs are recovered.

13 **Q. ARE THERE ANY OTHER REASONS THAT THE REQUESTED**
14 **REVENUE REQUIREMENT HAS CHANGED SINCE THE REBUTTAL**
15 **FILING?**

16 A. Yes. The Company has accepted Staff adjustments to plant in service (post-test
17 year plant), which has lowered the Company's proposed rate base. The Company
18 has also proposed an increase in rate case expense. The combined effect of the
19 Company's adjustments to rate base and to operating expenses, including treatment
20 of Project Magnolia costs, is to reduce the revenue requirement to approximately
21 \$742,000 from \$920,000 contained in the Company's rebuttal filing.

22 **Q. WHAT IS THE DIFFERENCE BETWEEN THE COMPANY'S REVENUE**
23 **INCREASE REQUEST AND THE RECOMMENDATIONS OF THE**
24 **OTHER PARTIES?**

25 A. Staff recommends a revenue increase of approximately \$46,900 or approximately
26 7.2 percent under Staff's adjusted test year revenues. The amount has changed

1 slightly from Staff's direct filing. The District and Mr. Breninger have not
2 recommended a revenue increase or revenue requirement.

3 **Q. WHAT IS THE FAIR VALUE RATE BASE THE COMPANY IS NOW**
4 **PROPOSING?**

5 A. The Company's proposed fair value rate base is approximately \$590,700.

6 **Q. WHAT IS THE FAIR VALUE RATE BASE STAFF IS PROPOSING?**

7 A. Staff's proposed fair value rate base is approximately \$637,500.

8 **Q. WHAT ARE THE MAJOR DIFFERENCES IN THE COMPANY'S AND**
9 **THE OTHER PARTIES PROPOSED FAIR VALUE RATE BASES?**

10 A. There are two factors that explain much of the difference. Staff includes Project
11 Magnolia in rate base based on original cost plant less accumulated depreciation,
12 whereas the Company does not. This is based on Staff's mistaken belief that the
13 pipeline is owned by Pine Water and not BUI. The Company also disagrees with
14 Staff on the treatment of deferred taxes in rate base. Staff excludes deferred taxes
15 of \$369,000 from rate base, whereas, the Company includes deferred taxes.

16 The District did not provide schedules and/or specific adjustments in its
17 surrebuttal testimony. The District has generally taken the positions proposed by
18 Staff. The District believes post test year plant should not be allowed in rate base
19 and Project Magnolia should be included in rate base. See Surrebuttal Testimony
20 of Harry Jones ("Jones Sb.") at 3 and 4.

21 **Q. HAS THE COMPANY CHANGED ITS RECOMMENDATION ON THE**
22 **REQUIRED RATE OF RETURN?**

23 A. No. The Company still seeks a 10.99 percent rate of return on fair value rate base.

24 **Q. HAS STAFF CHANGED ITS RECOMMENDATION THAT THE**
25 **REVENUE REQUIREMENT BE BASED ON A 10 PERCENT OPERATING**
26 **MARGIN?**

1 A. No. Staff continues to recommend a revenue requirement based on a 10 percent
2 operating margin. This translates to an 11 percent rate of return on Staff's
3 recommended rate base. However, Staff has prepared new cost of capital
4 testimony providing for an 8.7 percent rate of return as an alternative, but has not
5 provided a revenue requirement based on this alternate recommendation.

6 **Q. WHAT ARE THE MAJOR DISAGREEMENTS IN OPERATING**
7 **EXPENSES IN THIS CASE?**

8 A. Several disagreements between the Company and Staff remain, in addition to the
9 dispute over ownership of Project Magnolia, which impacts operating expenses in
10 several ways. The Company also disagrees with Staff on the proper level of
11 materials and supplies expense, the computation of property taxes and the
12 amortization period of rate case expense.

13 The District claims the Company's requested rate case expense is too high.
14 Staff supported the Company's initial request for rate case expense of \$150,000
15 and recognized the Company's intention to evaluate that request and possible
16 increase it due to the intervention of the District. Staff has not yet had the
17 opportunity to comment on the Company's rejoinder request for \$200,000 in rate
18 case expense.

19 **Q. WHAT ARE THE DIFFERENCES BETWEEN THE PARTIES WITH**
20 **RESPECT TO RATE DESIGN?**

21 A. Staff continues to propose a single rate tier structure regardless of meter size,
22 whereas the Company proposes a rate tier structure based on meter size. Neither
23 the District nor Mr. Breninger has proposed a rate design.

24 **III. RATE BASE**

25 **Q. WHAT ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF, THE**
26 **DISTRICT AND/OR BRENINGER?**

1 A. The Company has accepted Staff's proposed post test year plant of \$1,597. The
2 number consists of post test year pumping equipment of \$1,015 with a retirement
3 amount of \$988, and meter installations of \$5,050, with a retirement amount of
4 \$3,480. *See* Surrebuttal Testimony of Marlin Scott, Jr. ("Scott Sb.") at 2-3. The
5 District testified that no post test year plant should be allowed in rate base. *See*
6 Jones Sb. at 3.

7 A. **Project Magnolia**

8 Q. **DOES STAFF CONTINUE TO RECOMMEND PROJECT MAGNOLIA BE**
9 **INCLUDED IN PINE WATER'S RATE BASE?**

10 A. Yes. Both Staff and the District take this position. The District does not provide a
11 rationale, other than it is in agreement with Staff. *Id.* at 4

12 Staff asserts the Company owns Project Magnolia. According to Staff,
13 ownership is based on their claim Project Magnolia was included in construction
14 work-in-progress ('CWIP') in Pine Water's predecessor, E&R Water Company
15 ('E&R' or 'E&R Water'), prior rate case and that at least 75 percent of the costs of
16 Project Magnolia were on the books of E&R up to the time of the last filing. *See*
17 Surrebuttal Testimony of Claudio Fernandez ("Fernandez Sb.") at 4.

18 As support for Staff's position, Staff testified that the B-1 schedule (rate
19 base) in the E&R Water prior rate application included CWIP of \$334,242 which
20 represented the cost of Project Magnolia. *Id.* at 4.

21 Q. **IS THE BASIS OF STAFF'S ASSERTION CORRECT?**

22 A. No. The CWIP balance listed on the B-1 schedule in the prior case was merely
23 based on a capital expenditures ('CAPX') budget. *See* Rebuttal Testimony of
24 Robert T. Hardcastle ("Hardcastle Rb.") at 20-24. As support for its assertion and
25 in response to a data request from the Company, Staff provided a copy of the
26 CAPX budget filed in the prior case. *Id.* at Exhibit 5.

1 Staff also provided an E-5 schedule filed in the prior case showing
2 approximately \$17,000 of 'Project Magnolia' costs. *Id.*

3 **Q. IS THE CAPX BUDGET EVIDENCE THAN THE COSTS OF PROJECT**
4 **MAGNOLIA WERE ON THE BOOKS OF E&R WATER COMPANY UP**
5 **TO THE TIME E&R FILED ITS RATE APPLICATION?**

6 A. No. This schedule is clearly identified as a CAPX budget. This is not evidence
7 that the approximately \$334,000 of CAPX budgeted amounts were expended or
8 recorded on the books of E&R Water at the time the prior rate case was filed. Mr.
9 Hardcastle also provided a copy of an agreement with ASL Consulting showing
10 that work to perfect a right of way permit to construct Project Magnolia wasn't
11 even signed by BUI until May 24, 2000. *See* Hardcastle Rb. at Exhibit 3. The right
12 of way permit work request from ASL Consulting is nearly two months after the
13 E&R Water decision was issued. *See* ACC Decision 62400, March 31, 2000.

14 **Q. WHAT IS THE \$17,000 SHOWN ON THE E-5 SCHEDULE?**

15 A. As explained by Mr. Hardcastle, this was not used and useful plant in service in the
16 last case. *See* Rejoinder Testimony of Robert T. Hardcastle ("Hardcastle Rj.") at 8.
17 These costs are preliminary consulting and engineering services contracted for by
18 BUI and paid for, at least in part, by E&R. *Id.* According to Mr. Hardcastle, it
19 appears that E&R paid for some of these costs in 1998 and were picked up and
20 listed as plant in service by E&R's accounting witness. *Id.* Ultimately, both the
21 \$334,272 and the \$17,040 were identified as CWIP and removed from plant in
22 service by Staff in the prior case. *See* Staff Engineering Direct Testimony at 6, 7,
23 Docket No. W-01576A-99-0277.

24 **Q. IF CWIP IN THE PRIOR CASE WAS BASED UPON A CONSTRUCTION**
25 **BUDGET, WHY IS STAFF CONTINUING TO CLAIM THE PINE WATER**
26 **OWNS PROJECT MAGNOLIA?**

1 A. Frankly, I do not know.

2 Q. WAS CWIP APPROVED AS A RATE BASE ITEM IN E&R'S PRIOR
3 CASE?

4 A. No.

5 Q. HAS THE COMPANY OBTAINED ADDITIONAL EVIDENCE
6 SURROUNDING THIS ISSUE?

7 A. Yes. Supporting general ledger (GL) detail is attached at Exhibit 1.

8 Two clearly ascertainable facts can be discerned from a review of the GL
9 detail supporting the \$449,568 cost of Project Magnolia. First, the evidence shows
10 that Project Magnolia costs of \$334,000 could have only been a capital budget
11 amount and not a recorded CWIP cost when E&R Water filed its rate application.
12 The earliest of these costs were recorded on April 25, 2000. Further, the bulk of
13 the costs for Project Magnolia were incurred in the second half of 2000 through
14 early 2001. E&R Water filed its prior case in February 1999 (June 1998 test year)
15 and the final decision issued on March 31, 2000 (ACC Decision No. 62400). Mr.
16 Fernandez's claim that the 75 percent of the costs of Project Magnolia were on the
17 books of E&R Water when it filed its rate application is incorrect. *See Fernandez*
18 *Sb.* at 5.

19 Second, the Project Magnolia costs of \$449,598, with the exception of two
20 invoices totaling approximately \$1,500, were recorded on the books of BUI, since
21 the last rate case, not E&R Water, or Pine Water for that matter. Project Magnolia
22 was not constructed, recorded on the books of E&R, placed into service, and then
23 later transferred to BUI.

24 Q. DOES THE \$17,040 APPEAR TO HAVE BEEN RECLASSIFIED FROM
25 E&R TO BUI AND INCLUDED IN THE FINAL COST OF PROJECT
26 MAGNOLIA OF \$449,598?

1 A. No, it does not appear that this is the case based on the GL detail I reviewed.

2 Q. IS THE \$17,040 IN THE PLANT BALANCE OF PINE WATER AT THE
3 END OF THE TEST YEAR?

4 A. No. It appears the \$17,040 was ultimately expensed, not capitalized, on the books
5 of E&R.

6 Q. SO, THE \$17,040 AND THE \$334,000 OF CWIP FROM THE PRIOR CASE
7 HAVE NEVER BEEN GIVEN RATE BASE TREATMENT NOR HAVE
8 THESE AMOUNTS BEEN INCLUDED IN OPERATING EXPENSES FOR
9 RATE MAKING PURPOSES?

10 A. No. E&R, now Pine Water, has never recovered any portion of the \$17,040 or the
11 \$334,000 through rates.

12 Q. ON THE GL DETAIL, I SEE ENTRIES STARTING IN SEPTEMBER 2000,
13 WHY DO YOU CLAIM THE EARLIEST COST WAS RECORDED IN
14 APRIL 2000?

15 A. The first six entries on the Brooke Project Magnolia CWIP account are
16 reclassification entries. I requested support for these entries to find when the
17 original entry upon which the reclassification was made.

18 Q. CAN YOU EXPLAIN THE SEPTEMBER 2000 RECLASS ENTRIES
19 LISTED ON THE GL LISTING?

20 A. Yes.

21 The first entry of \$1,808.42 is a reclassification of two invoices from the
22 Brooke contractual services expense account to the Brooke Project Magnolia
23 CWIP account. The earliest recorded cost was July 24, 2000.

24 The second entry of \$53.44 is a reclassification of expense from the Brooke
25 licenses and permits expense account to the Brooke Project Magnolia CWIP
26 account. The original entry is dated September 12, 2000.

1 The third entry of \$455.00 is a reclassification of expense from the Brooke
2 supplies expense account to Brooke Project Magnolia CWIP account. The original
3 entry date is September 30, 2000.

4 The fourth entry of 749.25 is a reclassification of expense from the Pine
5 contractual services expense account to the Brooke Project Magnolia CWIP
6 account. The original entry is dated April 24, 2000.

7 The fifth entry of 749.25 is a reclassification of expense from the
8 Strawberry Water contractual services expense account to the Brooke Project
9 Magnolia CWIP account. The original entry date is May 25, 2000.

10 The sixth entry of \$16,351.89 is a reclassification of amount from Brooke
11 plant in service accounts, pumping equipment and transmission mains to Brooke
12 Project Magnolia CWIP. The earliest recorded entry date is October 23, 2000.

13 **B. Deferred Income Taxes**

14 **Q. WHY DOES STAFF EXCLUDE DEFERRED TAXES FROM RATE BASE?**

15 A. Staff makes several arguments. First, because Pine Water did not exist from 1986
16 to 1996 it did not pay the taxes on contributions-in-aid of construction (CIAC)
17 during this time period. *See* Fernandez Sb. at 7-8. Second, Staff asserts that the
18 tax liability attributed to the timing differences between book and tax depreciation
19 should be a reduction from rate base. Third, net operating losses, NOLs, are not
20 recognized by the Commission. *Id.*

21 **Q. HOW DO YOU RESPOND TO THESE ARGUMENTS BY STAFF?**

22 A. With respect to the first argument, although Pine Water did not exist from 1986 to
23 1996, it's predecessors, E&R Water and Williamson Waterworks did. Pine Water
24 was the result of a geographic re-organization approved by the Commission. *See*
25 Decision No. 60972 (June 19, 1998). The Commission authorized Brooke to re-
26 organize Desert Utilities, Inc., High Country Water Co., Inc., Pine-Oak Water Co.,

1 Inc., E&R Water, Williamson Waterworks, and C&S Water Co., Inc. into new
2 entities based on more appropriate geographical locations. Pine Water was the
3 result of combining parts of E&R Water and Williamson Waterworks. All of the
4 underlying assets, liabilities, and equity balances, as well as the CC&N's were
5 transferred to the new entities in accordance with this decision. The tax timing
6 differences did not disappear as a result of the re-organizations. Commission
7 policy directive allows for self-paid income taxes on advances and contributions as
8 a rate base item. *See* Decision 55774 (October 21, 1987) at 3.

9 It is disingenuous of Staff to make the argument that because Pine Water did
10 not exist from 1986 to 1996, it is not entitled (or required to per generally accepted
11 accounting principles) to record deferred taxes attributed to E&R Water and
12 Williamson Waterworks. For one thing, to the extent the deferred taxes related to
13 CIAC, that CIAC was brought over to Pine Water's books as a deduction to rate
14 base. Staff should not be allowed to bring over the reductions to rate base while
15 leaving behind the additions. It also illustrates the inconsistency in Staff's position
16 regarding Project Magnolia. On the one hand, Staff asserts that Pine Water owns
17 Project Magnolia because it was in CWIP during E&R Water's prior case, while on
18 the other hand denying Pine Water deferred taxes attributed to E&R Water.

19 **Q. WHAT ABOUT STAFF'S SECOND REASON FOR ELIMINATING**
20 **DEFERRED TAXES FROM RATE BASE?**

21 A. As shown by Bourassa Rebuttal Exhibit 2 detailing the deferred tax calculation,
22 contrary to Mr. Fernandez, there is a deferred tax liability component arises from
23 tax depreciation timing differences which is a reduction to rate base. However, as I
24 explained in my rebuttal testimony, it is the net effect of all three components
25 (CIAC, depreciation, and NOL) that results in a net deferred tax asset. *See*
26 Bourassa Rb. at 5-10.

1 Q. WHAT ABOUT STAFF'S THIRD REASON FOR ELIMINATING
2 DEFERRED TAXES FROM RATE BASE?

3 A. With respect to the NOLs, if a company is tax normalized, then deferred taxes,
4 whether positive (deferred tax liability) or negative (deferred tax asset) should be
5 included in rate base. Under full tax normalization, negative deferred taxes are a
6 true, paid up, asset on the company's books. Negative deferred taxes under IRC
7 Section 263A provides that in the case of any property "produced" by the taxpayer
8 should be capitalized. An asset is "produced" and/or "paid up" by the taxpayer
9 (shareholder), by the reduction to the taxpayer's (shareholder) equity due to past
10 losses.

11 Q. WHAT ARE THE THREE INDIVIDUAL TAX COMPONENT AMOUNTS?

12 A. The first component amount, attributed to taxable CIAC from 1986 to 1996, is
13 approximately \$221,700. This is a negative deferred tax or deferred tax asset. The
14 second component amount, attributed to depreciation book and tax timing
15 differences is approximately \$62,200. This is a positive deferred tax or deferred
16 tax liability. The third component amount, attributed to NOL carry forwards, is
17 approximately \$210,000. This is a negative deferred tax or deferred tax asset. The
18 net of all three components is approximately \$369,000, a net negative deferred tax
19 or net deferred tax asset. (negative 221,700 plus 62,000 plus negative 210,000).

20 IV. INCOME STATEMENT.

21 Q. WOULD YOU PLEASE SUMMARIZE THE COMPANY'S PROPOSED
22 ADJUSTMENTS TO REVENUES AND EXPENSES AND WHAT
23 ADDITIONAL ADJUSTMENTS, IF ANY, YOU HAVE ACCEPTED FROM
24 STAFF, THE DISTRICT, AND/OR MR. BRENINGER?

25 A. Yes. Rejoinder adjustments to operating expenses are shown in Rejoinder
26 Schedules C-1 and C-2. My Rejoinder Schedules are attached hereto as Exhibit 2.

1 No additional adjustments recommended by the other parties have been accepted
2 by the Company. There are, however, five rejoinder adjustments proposed by the
3 Company.

4 Adjustment number 1 removes depreciation expense related to acceptance of
5 Staff's level of post test year plant and corresponding retirements.

6 Adjustment number 2 lowers property taxes reflecting the reduction to
7 property taxes caused by a lower proposed revenue amount – the third revenue
8 component of the property tax calculation.

9 Adjustment number 3 increases rate case expense. The Company now
10 requests rate case expense of \$200,000 amortized over three years, increased from
11 its original request of \$150,000.

12 Adjustment number 4, removes Project Magnolia wheeling fees of \$174,645
13 from transportation expenses. The Company now proposes to recover these
14 expenses through the Company's proposed water hauling adjuster. I will discuss
15 this later in my testimony.

16 Adjustment number 5 adjusts interest expense to a level which reflects an
17 interest expense synchronized with the Company's rate base. The synchronization
18 has resulted in a higher interest expense than the Company proposed in its direct or
19 rebuttal filings. The higher interest expense has the effect of lowering income
20 taxes that are included in rates. The Company has proposed this because rate base
21 and capitalization are significantly different due in part to deferred taxes. Also, if
22 the Company is to include deferred taxes in the rate base, it would be proper to
23 allow rate payers the benefit of lower income taxes.

24 **A. Property Tax Expense**

25 **Q. DOES THERE REMAIN A DISAGREEMENT WITH STAFF**
26 **CONCERNING THE REVENUE COMPONENTS USED IN THE**

1 **PROPERTY TAX CALCULATION?**

2 A. Yes. Staff uses historical years 2000, 2001, and 2002 plus Staff's recommended
3 revenue increase, whereas the Company uses two times the 2002 historical
4 revenues plus the Company's proposed revenues. As I have testified, the Company
5 based its recommendation, in part, on Staff's proposal in the pending Arizona-
6 American rate proceeding (Docket Nos. WS-01303A-02-0867 et al.). *See*
7 Bourassa Rb. at 18. The Company believes that its recommendation better
8 synchronizes property taxes with revenues than does Staff's in the instant case.
9 Staff, in response, refers to the recent docket for Arizona Water Company's
10 Eastern Group rate case. *See* Fernandez Sb. at 10. In short, Staff is being
11 inconsistent and revisiting this issue from case to case only serves to add to rate
12 case expense.

13 **Q. WHAT POSITION DOES THE DISTRICT TAKE REGARDING**
14 **PROPERTY TAXES?**

15 A. The District has claimed that the Company made errors in reporting property tax
16 expense for 2001 and 2002. *See* Jones Sb. at 5. The District asserts that this
17 reporting error has caused property taxes to be overstated by \$16,617 and would
18 result in excess recovery by the Company through rates. *See* District Response to
19 Company Data Request 4.1 (2), a copy attached hereto as Bourassa Rejoinder
20 Exhibit 3. This is false.

21 The Company has readily admitted this error, identified during the
22 discovery process. *See* Bourassa Rb. at 21. As I explained in my rebuttal
23 testimony, these unintentional recoding errors have absolutely no bearing on the
24 level of property tax expense the Company has requested to be included in
25 operating expenses. Proposed property taxes are based on the Arizona Department
26 of Revenue ("ADOR") formula, which formula uses the utility's revenues. The

1 amount of property taxes previously paid is totally immaterial. While Staff and the
2 Company may disagree on which revenue years to use, they clearly agree that prior
3 tax payments are irrelevant by employing ADOR formula for property taxes. *See*
4 *Fernandez Sb.* at 10.

5 **Q. DOES THE DISTRICT EXPLAIN WHY IT PERSIST IN ITS POSITION**
6 **DESPITE YOUR EXPLANATION?**

7 A. Not really. Clearly, the District misunderstands how the Company determined its
8 recommended property tax expense and how the expense impacts rates. For
9 example, the District seems to think the Company is requesting an unjustified
10 return on accrued property taxes. In the Districts own words, "This excessive
11 accrual would allow rate base to be excessively high . . . , allowing for an
12 unjustified recovery of return of return on assets employed." *See* District Response
13 to Company Data Request 4.1 (3), copy attached hereto as Bourassa Rejoinder
14 Exhibit 4. There is no component of rate base for accrued property taxes. Further,
15 accrued property taxes are a liability, not an asset. Therefore, I simply do not
16 understand what the District is trying to convey and can only assume they do not
17 understand the process.

18 **Q. WHAT ABOUT MR. JONES' CLAIM THAT THE HISTORICAL**
19 **AMOUNTS NEED TO BE ADJUSTED?.**

20 A. Mr. Jones testifies that "the historical figures need to be adjusted to determine the
21 real costs of property taxes for in 2000, 2001, and 2002." *See* *Jones Sb.* at 5. If the
22 District wishes to make a recommendation for property taxes based on these any
23 one or more of these historical year figures, I agree and adjustment is needed and
24 the District has this information, provided during discovery, if it wishes to make
25 such a recommendation. However, property taxes allowed in Commission
26 decisions have, for many years, been based upon the ADOR formula making any

1 adjustment unnecessary from my perspective. Again, and notwithstanding Mr.
2 Jones' apparent belief that the historical costs are used as the basis for Staff's
3 recommended property tax expense (*Id.* at 5), Staff agrees with the Company and
4 uses the same ADOR formula, which is based entirely on revenue. *See* Fernandez
5 Sb. at 10.

6 **B. Rate Case Expense**

7 **Q. WHY HAS THE COMPANY INCREASED ITS REQUESTED RATE CASE**
8 **EXPENSE FROM \$150,000 TO \$200,000?**

9 A. To reflect increased costs to prosecute the instant case that were not foreseeable at
10 the time of the Company's original estimate. The intervention of the District has
11 caused rate case expense to increase significantly. Frankly, the Company will now
12 incur more than the amount requested but believes \$200,000 is reasonable in this
13 case.

14 **Q. WHAT RECOMMENDATIONS HAS STAFF MADE REGARDING RATE**
15 **CASE EXPENSE?**

16 A. The Company and Staff accepted the Company's initial estimate and agreed that
17 \$150,000 was a reasonable amount of rate case expense before the District even
18 moved to intervene, although Staff sought a longer amortization period. In
19 surrebuttal, Staff testified it is willing to review any changes to the Company's
20 proposed amount. *Id.* Surely, Staff will recognize that the District's intervention
21 has had a substantial impact on rate case expense and support the Company's
22 revised request. The record in this case reflects the extraordinary amount of work
23 required to prosecute the instant case, especially since the District intervened.

24 **Q. WHAT HAS THE DISTRICT PROPOSED REGARDING RATE CASE**
25 **EXPENSE?**

26 A. The District has not provided a specific rate case expense amount. However, the

1 District claims that the requested rate case expense is "unrealistically high due to
2 the fact that the Application is full of incorrect and misleading information that the
3 Staff and the District must ferret out." Jones Sb. at 5. Moreover, Mr. Jones
4 testifies that "the level of allowable rate case expense to include should be based on
5 the average percent of sales the Commission typically allows utility firms similar in
6 size to PWCo." *Id.*

7 **Q. HAS THE COMMISSION PRESCRIBED SUCH A FORMULA FOR**
8 **DETERMINING ALLOWABLE RATE CASE EXPENSE?**

9 A. In my experience, there is no set formula, nor should there be. Each case is
10 different. A one size fits all approach would be arbitrary. Allowable rate case
11 expense reflects the Commission's view as to the appropriate and reasonable level
12 based the size, complexity, number, extent, and nature of the issues between the
13 parties, and number and nature of the intervenors.

14 **Q. IS PINE WATER'S REQUESTED RATE CASE EXPENSE**
15 **"UNREALISTICALLY HIGH"?**

16 A. No, not given the amount of time and resources spent defending the Company's
17 rate filing. I have been working on the interim and permanent rate filing since
18 January 2003, approximately 13 months and it will likely be an 18 month process
19 before all is said and done. The total number of hours I spent through the end of
20 January 2004 was just under 300 hours.

21 While this might seem like a lot of time at first blush, it really isn't when
22 one considers such factors as the nature of the intervenors' claims as well as the
23 number the data requests, in addition to the substantial work that is part of every
24 rate case. There is also the nature and extent of the issues in this case and I assume
25 there is no dispute that Pine Water has faced some very significant issues in this
26 case including the issue of water shortages and what can be done to combat them.

1 Moreover, it must be recognized that my time, and that of counsel as well, covers
2 preparation of two rate filings (the interim and permanent) including schedules,
3 testimony, and responding to data requests from the parties, and attending
4 procedural conferences.

5 **Q. EXCUSE ME FOR INTERRUPTING, BUT WHY DOES THE COMPANY'S**
6 **REQUESTED RATE CASE EXPENSE INCLUDE COSTS FROM THE**
7 **COMPANY'S INTERIM RATE REQUEST?**

8 A. For the same reason the Company is allowed to recover rate case expense in this
9 case, it must go through Commission proceedings to adjust its rates. The
10 Commission agreed that interim rate relief was necessary but the Company had no
11 way of recovering the expense from the interim proceeding in the relief the
12 Commission issued. Therefore, it has been included here.

13 **Q. HAS THE COMMISSION ALLOWED COSTS FROM AN INTERIM RATE**
14 **FILING TO BE INCLUDED IN RATE CASE EXPENSE IN A**
15 **PERMANENT RATE FILING?**

16 A. Yes. In the Far West Water Company rate case. *See* Decision No. 62649 (June 13,
17 2000). In that case, Far West had filed for interim rates during the period of time it
18 constructed new water treatment facilities. The costs of the interim rate filing were
19 included in rate case expense in the subsequent permanent rate case and allowed in
20 the recovery of rate case expense by the Commission.

21 **Q. CAN YOU PROVIDE SOME SORT OF COMPARISON TO SUPPORT**
22 **YOUR VIEW THAT THE AMOUNT OF TIME SPENT BY YOU AND**
23 **COUNSEL IS REASONABLE?**

24 A. Yes, by comparison to the 300 hours I had spent through January 31, 2004, the
25 District's witness Harry Jones has worked on this case since October of 2003, and
26 has billed the District over 425 hours through December 2003. *See* District

1 Response to Company Data Request 1.1, a copy attached hereto as Bourassa
2 Rejoinder Exhibit 5. Therefore, in 3 months, the District's witness has compiled
3 more hours than I have in over a year, without even debating whether the District's
4 efforts have helped ratepayers. It is a fact, though, that the District's accounting
5 witness has produced no schedules or specific recommendations on the level of
6 revenues, expenses, rate base, and/or cost of capital, the typical time consuming
7 endeavors in a rate case. Instead, the District essentially relies on Staff's schedules
8 and analysis, at least when it is convenient. Similarly, the District's legal counsel
9 had spent approximately 175 hours on this rate case through January 2004. Again,
10 that is only 4 months, a lot less time than the Company's lawyers have been
11 involved.

12 Now, I am not criticizing the amount of time the District's lawyer and
13 consultants have spent on this case. I am instead pointing out just how time
14 consuming these cases are, even for intervenors like the District that do not have
15 the burden of proof, do not need to review and respond to all other parties and do
16 not prepare schedules and other evidence to support their position. If the District's
17 consultants and lawyers can spend nearly 600 hours on this case in just 3-4 months
18 at a cost of approximately \$50,000, is it so unrealistic that over the course of some
19 18 months, two applications, multiple rounds of prefled testimony, substantial
20 discovery, two hearings, post-hearing briefing and exceptions and multiple
21 appearances before the Commission the Company would incur \$200,000 of
22 expense? I think the answer is obvious.

23 **Q. WHAT ABOUT THE DISTRICT'S CLAIM THAT THE RATE CASE**
24 **EXPENSE IS HIGH DUE TO INCORRECT AND MISLEADING**
25 **INFORMATION IT HAD TO FERRET OUT?**

26 **A.** The District, particularly its witness Mr. Jones, has challenged virtually every

1 accounting entry made by Pine Water and BUI for the past several years. *See*
2 Direct Testimony of Harry Jones ("Jones Dt.") at 5-15 and Jones Sb. at 3-8.
3 Further, the District demanded 5 or more years of historical data and records of the
4 Company, BUI, and Strawberry Water Company. In the end, though, while there
5 have been some accounting and reporting errors in the prior years annual reports
6 and the application, the District has not identified a single error that has materially
7 changed the Company or Staff's conclusions and recommendations in this case.

8 **Q. IS REQUESTING 3-5 YEARS OR MORE OF RECORDS UNUSUAL?**

9 A. Not with respect to plant. If for example, if it has been 5 or more years since a
10 utility filed a rate case, audits of plant would be conducted by Staff to verify plant
11 balances. Plant is the largest component of rate base and warrants scrutiny. In the
12 case of revenue and expenses, in my experience, the test year is always audited,
13 and in some cases where a specific issue needs be resolved relating to the test year,
14 maybe one or two years prior to the test year will suffice. Even then, the scope is
15 limited and is first based upon a review of general ledger information and some
16 clear indication that the issue will have a material impact on ratemaking.
17 Subsequently, analytical procedures, inquiries and a sampling of transactions are
18 performed to achieve audit objectives. In the instant case, however, the District has
19 taken a "shot gun" approach and challenged every thing for five, and in some cases
20 as long as seven years. Ultimately, the District was limited to three years worth of
21 expense data, which still had the impact of increasing rate case expense.

22 **Q. IN YOUR VIEW, MR. BOURASSA, WHAT IS THE PURPOSE OF**
23 **DISCOVERY?**

24 A. One primary purpose of discovery is for each party to gain an understanding of the
25 rate base, revenues, and expenses upon which rates will be based. Every utility
26 filing a rate case expects a reasonable amount of discovery. What is unusual in this

1 case is not only the scope of discovery, which for the District went far beyond the
2 test year and to other entities not before the Commission in this docket, but the
3 accusations made on the part of the District. In short, the District's zeal to cast
4 aspersions regarding our competence, credibility and integrity has obfuscated the
5 real issues in this case. As I stated, despite the District questioning everything the
6 Company has done, it has not pointed to anything that has had a material adverse
7 impact on rates or ratepayers. The process, however, has increased rate case
8 expense which the Company should be allowed to recover in rates.

9 **Q. IS IT UNUSUAL IN RATE CASES FOR PARTIES TO BASE THEIR**
10 **RECOMMENDATIONS ON INFORMATION FOUND DURING THE**
11 **DISCOVERY PHASE?**

12 **A.** No. Nonetheless, the District points to Staff's proposed adjustments to either plant
13 in service or expenses in order to bolster its claim that there can be no confidence
14 in the accuracy and reliability of the records in this case. *See, e.g.,* District
15 Response to Data Request 4.1 (17), a copy attached hereto at Bourassa Rejoinder
16 Exhibit 6.

17 Typically, during the discovery phase of rate proceedings, Staff and other
18 parties find errors or other information upon which they make their
19 recommendations concerning rate base, revenue, and expenses as well as
20 appropriate pro forma adjustments. For my part, I have never been involved in a
21 case where one or more parties have not found the need for expenses to be adjusted
22 or where plant was not properly recorded and needed to be reclassified. The errors
23 are the result of audits, and frankly, part of the intended result at the end as all
24 parties have a clean slate from which to go forward with the specific utility. Any
25 reasonable person that has been involved in Commission rate proceedings would
26 consider this to be common and the errors that do not impact rates minor.

1 **Q. CAN YOU IDENTIFY THE ADJUSTMENTS STAFF PROPOSED THAT**
2 **THE DISTRICT RELIES ON TO BOLSTER ITS POSITION?**

3 A. Yes, and none of them have a significant impact on rates, nor do they reflect some
4 sort of larger problem lying below the surface, as Mr. Jones implies. *See Jones Dt.*
5 *at 4, Jones Sb. at 3, District Response to Data Request 4.1, a copy attached hereto*
6 *at Bourassa Rejoinder Exhibit 7.*

7 The first Staff adjustment was to sales tax and was a small adjustment of
8 \$266. The Company accepted this adjustment.

9 Second, I believe the plant in service adjustment made by Staff to which the
10 District refers was for post test year plant. There has always been controversy over
11 post test year plant and post test year plant has been allowed in prior rate
12 proceedings. *See Bella Vista Water, Decision, 65350 (Nov. 1, 2002); Paradise*
13 *Valley Water Company, Decision 61831 (July 20, 1999).* Now, however, the
14 Company has accepted Staff's post test year plant amount.

15 Third, Staff's proposed an adjustment to materials and supplies expense.
16 This adjustment is not a result of an error in record keeping. It is the result of
17 Staff's belief that the going forward amount of materials and supplies should be an
18 average of the prior three years. The Company and Staff are in disagreement on
19 this issue, but again, it has nothing to with the accuracy of the amount recorded
20 during the test year.

21 Finally, during Staff's audit, they found additional invoices for purchased
22 water that were hauling invoices. The amount was for less than \$2,200 and the
23 Company accepted this adjustment.

24 **Q. WOULD YOU PLEASE CONTINUE WITH YOUR DISCUSSION OF HOW**
25 **THE DISTRICT HAS EXACERBATED RATE CASE EXPENSE DUE TO**
26 **THE EXTENT OF ITS CLAIMS AND DISCOVERY CONDUCT?**

1 A. Sure. As another example, the District has claimed that the Company continues to
2 present misleading information related to what the words "transportation costs"
3 mean. *See* Jones Sb. at 4. Mr. Jones' argument is based on his concern over the
4 recording of the wheeling fees charged by Brooke (but never paid by Pine Water)
5 in the incorrect NARUC account. According to Mr. Jones "this improper use of
6 the required system of accounting is misleading and confusing and adds greatly to
7 the mistrust of [the Company]." *Id.*

8 While I do not disagree with Mr. Jones that wheeling charges should be
9 recorded in the proper NARUC account, I disagree that the Company has mislead
10 anyone or that any of the parties misunderstand what expenses have been included
11 in transportation expense. As stated above, one of the purposes of discovery is ask
12 questions regarding test year expenses. The real question is not what account this
13 expense was recorded in, it is the level of wheeling charges incurred during the test
14 year. All relevant information concerning this operating expense, like every other
15 operating expense upon which the Company's proposed revenue requirement is
16 based, was provided to all parties when requested. Further, there is absolutely no
17 evidence that the Company attempted to hide, misdirect, or mislead Staff or any
18 other of the party at anytime.

19 **Q. HAS STAFF CLAIMED THE COMPANY WAS MISLEADING WITH**
20 **RESPECT TO THE WHEELING FEES?**

21 A. No.

22 **Q. PLEASE CONTINUE.**

23 A. Mr. Jones claims water hauling costs were misstated and misleading. *See* Jones Sb.
24 at 6. First, Mr. Jones is actually referring to transportation expense, not water
25 hauling costs. Second, in my rebuttal, I admitted to my error in misclassifying
26 2000 contractual services as transportation expenses on the E-2 schedule. *See*

1 Bourassa Rb. at 23. Besides ignoring my rebuttal, Mr. Jones never explains how
2 this three year old expense amount is relevant to the current test year amount. It
3 does not. As I testified, this classification error has no bearing on the level of
4 transportation expenses included in operating expenses during the test year and
5 upon which the Company's direct and rebuttal revenue requirement is based.

6 In yet another example, Mr. Jones claims that because the Company reduced
7 test year outside services expense for ratemaking by \$38,000, that somehow the
8 unadjusted test year amount was "massive." See Jones Sb. at 6. What Mr. Jones
9 doesn't understand is that the Company's adjustment was based on a forward
10 looking approach and it is based on what the Company has determined to be the
11 appropriate level of this expense on a going forward basis. It could just as well not
12 have adjusted outside services, a valid test year expense. In any case, as I
13 explained, adjustments are typically proposed, and are allowed by rule, by one or
14 more of the parties to a rate case. See A.A.C. R14-2-103(i) (definition of pro
15 forma adjustments). Actual expenses in future year may be much higher and it is
16 merely the District's unsupported speculation that unadjusted contractual services
17 expense during the test year was "massive."

18 **Q. HAS THE DISTRICT MADE A SPECIFIC RECOMMENDATION AS TO**
19 **THE LEVEL OF OUTSIDE SERVICE EXPENSE?**

20 A. No, apparently the District will support any number it does not deem "massive."

21 **Q. DOES STAFF PROPOSE A DIFFERENT AMOUNT THAN THE**
22 **COMPANY FOR OUTSIDE SERVICES?**

23 A. No.

24 **Q. ANY OTHER EXAMPLES?**

25 A. Yes, Mr. Jones claims I made "massive" corrections to materials and supplies
26 (repairs and maintenance) for 1999 (\$16,325) and 2001 (\$4,447). See Jones Sb. at

1 6. Year 1999 was not shown on the E-2 schedule. For the year 2000, the E-2
2 schedule reflects \$4,447 in repairs and maintenance.

3 The corrections to which Mr. Jones refers are to the annual reports and
4 occurred outside the test year. During discovery, it was determined that in 1999
5 and 2001 repairs and maintenance was reported in miscellaneous expense on the
6 annual reports. Yet, these errors have no bearing on either actual test year expense
7 or adjusted test year expense proposed by the Company. Nevertheless, according
8 to the District, the Company has admitted the test year was overstated by \$17,000.
9 See District Response to Data Request 4.1 (4), copy attached hereto at Bourassa
10 Rejoinder Exhibit 8.

11 I am not aware of any evidence of an overstatement. Staff did not find
12 actual test year expenses to be overstated. The proposed adjustments to lower the
13 expense by both the Company and Staff is simply based on what each of the parties
14 believe is the most appropriate level of these expenses on a going forward basis.
15 Again, the reporting errors have no impact on the determination of revenue
16 requirement by either the Company, or Staff for that matter.

17 **Q. BUT STAFF DOES PROPOSE A DIFFERENT AMOUNT THAN THE**
18 **COMPANY FOR MATERIALS AND SUPPLIES?**

19 A. Yes, but it has nothing to do with a reporting error that occurred in 1999 or 2000
20 annual reports. Staff proposes using an estimate based on three year average
21 (2000, 2001, and 2002). Staff asserts its estimate is better than the Company's
22 estimate, yet Staff ignores my testimony that 2003 materials and supplies expense
23 through October 2003 (10 months) was \$28,400, which is greater than Staff's
24 proposed level of \$25,293 for an entire year. See Bourassa Rb. at 19. As of
25 December 2003, the materials and supplies expense is \$46,600. This amount is
26 approximately \$3,000 higher than the amount proposed by the Company and

1 approximately \$21,000 greater than the amount proposed by Staff. Therefore, the
2 Company believes it proposed materials and supply expense is a far superior
3 reflection of the proper amount for materials and supplies on a going forward basis.

4 **Q. ARE THERE FURTHER EXAMPLES?**

5 A. Yes, many, but I think those I have discussed above present a clear picture of how
6 the District has misunderstood the process, expanded the issues, made baseless
7 accusations and inflated the Company's rate case expense.

8 **C. Project Magnolia**

9 **Q. YOU ALSO MENTIONED EXPENSE ADJUSTMENTS RELATED TO**
10 **PROJECT MAGNOLIA. WOULD YOU PLEASE DISCUSS THOSE**
11 **ADJUSTMENTS?**

12 A. As I said, I have removed the Project Magnolia wheeling fees of \$174,645 from
13 transportation expenses because the Company now proposes to recover these
14 expenses through the Surcharge Tariff.

15 **Q. HAVE YOU REMOVED ANY OTHER EXPENSES RELATED TO**
16 **PROJECT MAGNOLIA?**

17 A. No. BUI recovers its Project Magnolia operating expenses through the wheeling
18 fee, which is contrary to Staff's assertion that the operating costs for the pipeline
19 are included in the Company's operating expenses. See Fernandez Sb. at 8.
20 Specifically, Mr. Fernandez relies on the Company's response to data request CF
21 9-2 but that schedule shows the BUI costs attributed to Project Magnolia and does
22 not show amounts allocated to Pine Water. See Company Response to Data
23 Request CF 9-2, copy attached hereto at Bourassa Rejoinder Exhibit 9.

24 **V. COST OF CAPITAL.**

25 **A. The Company's Position and Staff's Operating Margin Approach.**

26 **Q. HAVE YOU PREPARED COST OF CAPITAL SCHEDULES IN**

1 **CONJUNCTION WITH YOUR REJOINDER TESTIMONY?**

2 A. Yes. Rebuttal Schedule D-1, page 1, shows the weighted cost of debt, equity, and
3 capital at the rebuttal stage. My recommendation on the cost of equity has not
4 changed and remains at 12 percent. The required fair value return or weighted cost
5 of capital remains at 10.99 percent as contained in the Company's rebuttal filing.

6 Rejoinder Schedule D-2 reflects the Company's proposed long-term debt.
7 Rejoinder Schedule D-1, page 2, reflects the Company proposed equity. The
8 Company has not modified its proposed conversion of the \$533,000 inter-company
9 debt to \$164,000 long-term debt and \$369,599 equity. Nor has the Company
10 changed its proposed interest rate of 10 percent on the long-term debt.

11 **Q. HAVE YOU UPDATED YOUR COST OF CAPITAL SCHEDULES?**

12 A. No. Frankly, we didn't have sufficient time after Staff presented entirely new cost
13 of capital testimony in its surrebuttal, as an alternative position. Instead of
14 updating my own analysis, I had to assess and prepare a response to Staff's.

15 **Q. DO YOU BELIEVE YOUR RECOMMENDATIONS ON THE COST OF**
16 **CAPITAL WOULD HAVE CHANGED IF YOU HAD UPDATED YOUR**
17 **SCHEDULES?**

18 A. Not materially, although if anything it would have led to a higher cost of equity.
19 Certainly the record in this case now reflects a greater degree of risk than was
20 present when I conducted my initial analysis and we had no indication Staff would
21 recommend confiscating Project Magnolia from BUI or that the District would
22 aggressively seek to obtain Pine Water's CC&N and other assets. Therefore, while
23 I did not prepare a specific update using the same formula used in my initial
24 recommendation, I still conclude the cost of equity for Pine Water should be at
25 least 12 percent. This is the minimum required to ensure confidence in the
26 financial integrity of Pine Water, maintain and support its credit, enable the

1 Company to attract capital and earn a fair rate of return.

2 Further, I do not believe an equity or debt investor in Pine Water would
3 accept the 9% return on equity now deemed reasonable by Staff. Staff has
4 completely ignored the risks faced by Pine Water and failed to account in any way
5 for the Company's operating characteristics that impact the relative risk compared
6 to the nationally traded water companies listed in Value Line. My analysis does
7 not ignore these risks and is therefore superior to Mr. Reiker's because these risks
8 are certain to be considered the investor. See Direct Testimony of Thomas J.
9 Bourassa ("Bourassa Dt.") at 33-42.

10 **Q. YOU STATED THAT PINE WATER'S RISKS ARE GREATER NOW**
11 **THAN WHEN YOU PREPARED YOUR DIRECT TESTIMONY. WOULD**
12 **YOU PLEASE ELABORATE ON THAT TESTIMONY?**

13 **A.** Sure, we do not have to look beyond the recommendations of Staff and Mr.
14 Breninger and the actions and recommendations of the District in this case. Here
15 are just a few examples of what I mean:

- 16 • The District has done everything possible, at the very least, to delay
17 rate increases. The District has even gone so far as to file a motion to
18 have the Company's CC&N deleted.
- 19 • The District, in my opinion, is out to discredit the Company and
20 hamper its financial condition in order to acquire its assets at the
21 lowest possible price.
- 22 • The District's own witnesses have conflicting views about the water
23 supply in Pine. District member Breninger also offers
24 recommendations questioned by the District. Staff is silent on water
25 supply issues and the water supply limitations Pine Water faces are
26 not getting any better.
- Staff has recommended denial of Pine Water's proposal to improve
its financial health by converting a current liability (the inter-
company payable) to some debt and mostly equity.
- Staff has recommended Pine Water purchase Project Magnolia with
financing that includes debt without addressing the debt Pine Water

1 already has on the books.

- 2 • Staff's recommended financing on Project Magnolia does not allow
- 3 for timely repayment of the inter-company payable.
- 4 • The Commission has denied the Company's proposal for an interim
- 5 surcharge to cover wheeling fees until the matter can be decided at
- 6 the conclusion of the instant case leaving Pine Water's financial
- 7 condition to deteriorate further.

8 **Q. JUST TO BE CLEAR, THOUGH, STAFF'S PRIMARY POSITION STILL**
9 **RESULTS IN AN 11 PERCENT RETURN ON FAIR VALUE RATE BASE?**

10 **A. Yes.**

11 **Q. DOES THIS MEAN THERE IS NO REAL DISAGREEMENT BETWEEN**
12 **STAFF AND THE COMPANY REGARDING THE FAIR VALUE**
13 **RETURN?**

14 **A. Yes, and no. It depends on what portions of Staff's testimony we are assessing. It**
15 **is true that Staff continues to recommend an operating margin of 10 percent, which**
16 **translates to an 11 percent return on fair value rate base. The Company**
17 **recommends a 10.99 percent return on fair value rate base. Therefore, with Staff's**
18 **so-called primary position, the difference between Staff and the Company is very**
19 **small.**

20 However, as I mentioned, Staff has offered a new alternative return on fair
21 value rate base of 8.7 percent. See Surrebuttal Testimony of Joel M. Reiker
22 ("Reiker Sb.") at 37. Under this approach, the Company and Staff are over 229
23 basis points apart. Of course, the end result of Staff's so-called primary position is
24 also 229 basis points higher than its alternative position.

25 **Q. WHAT COST OF EQUITY DOES STAFF RECOMMEND BY USING THE**
26 **OPERATING MARGIN METHOD?**

A. The operating margin method translates to a 14.45 percent cost of equity under
Staff's proposed capital structure.

1 Q. WHAT COST OF EQUITY DOES STAFF RECOMMEND UNDER THE
2 NEW ALTERNATIVE COST OF CAPITAL TESTIMONY?

3 A. 9 percent.

4 Q. WHAT COST OF EQUITY DO YOU RECOMMEND?

5 A. 12 percent.

6 Q. HAS STAFF CHANGED ITS RECOMMENDATION WITH RESPECT TO
7 THE COMPANY'S PROPOSED CONVERSION OF THE INTER-
8 COMPANY PAYABLE OF \$533,000?

9 A. No, even though I explained that the portion of the inter-company payable to be
10 converted to long-term debt is for plant and that the balance was to be converted to
11 equity. *See* Bourassa Dt. at 11, Bourassa Rb. at 29. However, while Staff ignored
12 this testimony in its surrebuttal testimony, in a response to a Company data request
13 regarding the disposition of the \$533,000 inter-company payable, Staff responded
14 as follows:

15 Staff is not recognizing the inter-company payable in its
16 recommended rates. However, Staff believes that the
17 Company is in a better position to make a determination as to
18 the proposed treatment of the payable. *The Company's*
19 *choices could include writing-off the payable, issue equity*
20 *or payback the inter-company payable.* (Staff Response to
21 Company Data Request 2.2, copy attached hereto at Bourassa
22 Rejoinder Exhibit 10.) (*Emphasis added*).

23 Q. HAS STAFF MADE A FINANCING RECOMMENDATION?

24 A. Yes. Staff's recommends that Pine Water be authorized to issue debt and equity to
25 finance Project Magnolia in the amount of \$449,598. *See* Reiker Sb. at 4. Staff
26 proposes 33 percent debt and 66 percent equity for financing Project Magnolia,
which translates to \$149,979 in long-term debt and \$299,619 in paid-in-capital or
equity. *See id.*; *see also* Fernandez Sb. at 1.

This is astonishing. First, Staff is proposing financing to purchase an asset

1 that is not for sale. Second, Staff's proposed debt and equity allocations are based
2 on the Company's proposal to convert the inter-company payable. Why not some
3 other ratio of debt to equity? Why should Staff assume that BUI is willing to sell
4 Project Magnolia for a capital asset to be recorded in roughly the same proportions
5 as it sought to treat the inter-company payable? I assume BUI would not be
6 willing to agree to this, especially given that BUI would be lending additional
7 funds to Pine Water when it is already owed \$588,000 by Pine Water (\$533,000
8 payable plus \$55,000 long-term debt) – amounts it does not appear Pine Water can
9 ever repay.

10 Third, Staff recommends an interest rate of only 8.0 percent over a 15 year
11 term. There is no credible evidence that any creditor would be willing to lend
12 additional funds to Pine Water for that rate or for that period of time. *See Reiker*
13 *Sb. at 4.* Considering Pine Water's current financial condition, including the
14 \$588,000 of debt yet to be paid to BUI, an 8.0 percent interest rate would be
15 unconscionable. Staff has yet to provide a name of a credible third party lender
16 willing to lend money to Pine Water at all, never mind the interest rate they would
17 charge.

18 **Q. WHY DOES STAFF PROPOSE FINANCING FOR PROJECT**
19 **MAGNOLIA?**

20 A. For the same reason Staff now offers cost of capital testimony after previously
21 claiming it could not be done. *See Direct Testimony of John S. Thornton*
22 *("Thornton Dt.") at 3.* Staff has now realized that when it asserted Project
23 Magnolia was owned by Pine Water and included it in the proposed rate base, no
24 cost of the pipeline was reflected in the capital structure. *See Reiker Sb. at 3.*

25 **Q. ARE YOU SAYING STAFF HAS ADMITTED THAT PROJECT**
26 **MAGNOLIA IS NOT REFLECTED ON THE BOOKS OF PINE WATER?**

1 A. Yes.

2 Q. WHAT IS STAFF'S PROPOSED CAPITAL STRUCTURE UNDER EITHER
3 OF STAFF'S RECOMMENDATIONS ON THE FAIR VALUE RETURN?

4 A. Staff's proposed debt is \$205,332 and proposed equity is \$299,619. Staff's capital
5 structure results in approximately 60 percent debt and 40 percent equity.

6 Q. CAN YOU EXPLAIN HOW THE DEBT AND EQUITY AMOUNTS ARE
7 DERIVED?

8 A. As you will recall, the Company's debt was approximately \$55,353 and equity was
9 approximately negative 152,996 at the end of the test year. With \$149,979
10 additional debt and \$299,619 of additional equity, Staff's proposed debt becomes
11 \$205,332 (55,353 plus 149,979) and proposed equity becomes \$146,623 (negative
12 152,996 plus 229,619).

13 Q. HOW DOES STAFF RECONCILE CONTINUING TO RECOMMEND AN
14 11 PERCENT RETURN ON FAIR VALUE RATE BASE EVEN THOUGH
15 ITS FINANCING RECOMMENDATION RESULTS IN POSITIVE
16 EQUITY?

17 A. Staff recommends an operating margin method due to the Company's small rate
18 base. See Direct Testimony of Claudio M. Fernandez at 2. Frankly, I suspect Mr.
19 Reiker was simply stuck with Mr. Thornton's position and although he preserved it
20 as the "primary" approach, he firmly believes his cost of capital recommendations
21 should prevail.

22 Q. DO YOU AGREE WITH STAFF'S OPERATING MARGIN APPROACH IN
23 THIS CASE?

24 A. Yes, if the operating margin approach results in a return sufficient to maintain the
25 financial integrity of Pine Water, maintain and support the Company's credit,
26 attract capital, and is comparable to other firms with corresponding risks. Simply

1 looking at the resulting return on rate base of 11%, I can live with it. However,
2 Staff's recommended financing of Project Magnolia with \$149,979 of new long-
3 term debt and \$229,610 of new equity is not acceptable or appropriate while the
4 existing debt of \$55,353 and existing \$533,000 inter-company payable remain
5 unpaid.

6 **Q. WOULD YOU PLEASE ELABORATE?**

7 A. Yes. Under Staff's recommendations, the available cash flows will be insufficient
8 to service the debt and to repay the inter-company payable. I have prepared a
9 schedule, attached at Bourassa Rejoinder Exhibit 11 to illustrate. Under Staff's 10
10 percent operating margin approach, there would be insufficient cash flows for
11 Staff's proposed new debt of \$149,979, existing debt of \$55,353, and assuming the
12 inter-company payable was supposed to be paid back in 5 years. In fact, cash flow
13 will be negative by over 30,000 per year.

14 Furthermore, the analysis assumes BUI is willing to wait an additional 5
15 years to be repaid and without receiving any interest. It also assumes no dividends
16 will be paid. Under this scenario, there will be no cash available for plant additions
17 in the next five years, which of course conflicts with Breninger and the District's
18 recommendations and the realities of providing water service in Pine, Arizona.

19 **Q. DOES STAFF'S RECOMMENDED RETURN OF 8.7 PERCENT PROVIDE**
20 **SUFFICIENT CASH FLOWS?**

21 A. No. It is worse. The schedule shows that cash flow will be negative by over
22 \$45,000 per year.

23 **B. Staff's Cost of Capital Recommendations.**

24 **Q. DO YOU ACCEPT MR. REIKER'S CORRECTIONS TO YOUR DCF**
25 **COMPUTATIONS?**

26 A. Yes.

1 Q. DO THE CORRECTIONS CHANGE YOUR RECOMMENDATIONS ON
2 THE COST OF EQUITY FOR PINE WATER?

3 A. No.

4 Q. PLEASE SUMMARIZE YOUR CRITICISMS OF STAFF'S ALTERNATIVE
5 COST OF CAPITAL TESTIMONY?

6 A. Staff's equity recommendation omits the risks this Company faces. The only risk
7 Staff recognized in its equity recommendation is the amount of equity, as a
8 percentage of capitalization, which totally disregards operating characteristics. In
9 fact, Staff's cost of capital recommendation is generic and determined without any
10 examination or independent consideration of this Company. The fact that Staff
11 totally disregards the operating characteristics of the Company makes Staff's
12 alternative cost of equity and capital recommendation meaningless.

13 Q. WHAT DO YOU MEAN STAFF'S TESTIMONY IS GENERIC?

14 A. This testimony can be applied to any water utility, such as Arizona Water
15 Company or Arizona-American Water Company. In fact, Staff admits the cost of
16 capital computations are for an investment in the water industry. See Reiker Sb. at
17 36. There is no consideration of the risks the Company faces. According to Staff,
18 the cost of capital for Pine Water is the same as that for any of the nationally traded
19 Value Line water utilities. It is also the same as Staff recently recommended for
20 Arizona Water Company, Arizona American Water Company and for Arizona
21 Public Service.

22 Q. IS PINE WATER COMPARABLE TO THE NATIONALLY TRADED
23 WATER COMPANIES?

24 A. Only to the extent it is a regulated utility company. Beyond that, there is no
25 comparison. Pine Water is a high risk company deserving of a significant
26 adjustment in its allowed equity return. Although Mr. Reiker's recommendations

1 rely on the premise that he is comparing Pine Water with other companies of
2 comparable risks and on the notion that his recommendation provides for a return
3 which is sufficient to maintain the financial integrity of Pine Water, maintain and
4 support Pine Water's credit, attract capital, and is comparable to other firms with
5 corresponding risks, in reality his recommendations do none of these things.

6 **Q. ARE THE RISKS FACED BY PINE WATER COMPARABLE TO**
7 **ARIZONA WATER, ARIZONA-AMERICAN OR ARIZONA PUBLIC**
8 **SERVICE?**

9 A. No, although in the pending Arizona-American rate proceeding, for example, Mr.
10 Reiker recommends the same cost of equity of 9.0 percent. (Docket Nos. WS-
11 01303A-02-8867 et. al), Surrebuttal Testimony of Joel Reiker at 38. Arizona-
12 American has a capitalization of over 276 million dollars. The smallest company is
13 my sample Value Line water utilities has a market capitalization of \$129 million
14 (Southwest Water). Compared to Pine Water, which has a rate base of
15 approximately \$700,000, Southwest Water is 129 times the size.

16 **Q. WOULD AN INVESTOR IGNORE THE RISKS OF PINE WATER IF**
17 **HE/SHE WERE CONSIDERING INVESTING IN PINE WATER?**

18 A. No. An investor in Pine Water would most certainly look at the Company's
19 specific risks, as Mr. Hardcastle, a shareholder in BUI has made clear. Hardcastle
20 Rj. at 12-13. The investor would most certainly consider operating characteristics
21 of Pine Water as compared to the nationally traded companies. See Bourassa Dt. at
22 34-35. Nevertheless, Mr. Reiker dismisses my testimony on the specific risks Pine
23 Water faces because they are unique to the Company and, according to Mr. Reiker,
24 are diversifiable and investors do not expect to be rewarded for them.

25 Although Mr. Reiker has repeatedly made this assertion elsewhere, no
26 where is it more far-fetched than this case. Just take the fact that an investor in

1 Pine Water would not be (and has not been) paid a dividend, has no publicly
2 available market to sell his/her stock when his/her investment horizon has been
3 reached, would be investing in a company with high financial risk that translates to
4 a higher likelihood that he/she would lose some or all of his/her investment (no
5 earnings growth). The current financial condition and past financial history
6 validate these facts. Shareholder equity is negative and no dividend has ever been
7 paid. And I have not even mentioned substantial operating losses requiring
8 shareholder subsidy, or delayed rate increases, confiscation of assets or the
9 District's attempt to take away the Company's CC&N. Would Mr. Reiker really
10 ignore these risks because some college finance textbook says he would if he
11 owned this Company? I don't believe so and the Commission should not believe
12 Pine Water's investors will ignore these specific risks because they have a
13 diversified portfolio.

14 Indeed, BUI is the sole investor in Pine Water. Mr. Reiker is actually
15 assuming that BUI is able to hold a diversified portfolio, so that when BUI
16 commits an additional \$359,000 in Pine equity, as proposed by the Company, BUI
17 has sufficient funds to invest in other investments to diversify away from Pine
18 Water's risks. This is an incredible and outlandish assumption upon which to rest
19 his recommendations.

20 **Q. ARE THERE INCONSISTENCIES CONTAINED IN MR. REIKER'S**
21 **TESTIMONY?**

22 **A.** Yes. Mr. Reiker states that opportunity cost is forward looking, yet he uses a
23 combination of historic and projected measures of dividend growth, earnings per
24 share growth, and intrinsic growth to derive dividend growth in Schedule JMR-4,
25 coupled with spot prices for stock to compute dividend yield. See Reiker Sb. at 14.
26 Then, he cites another source which states that analysts' projections of future

1 earning are generally high, but proceeds to use the projected earning projections.
2 *Id.* at 23. Mr. Reiker's citation to the problem with analyst's projections apparently
3 don't seem matter when he estimates the one and five year dividend growth rates.
4 *Id.* at 32.

5 Mr. Reiker's Schedule JMR-1 assumes that utilities do not have to
6 continually invest in new plant. That assumption is obviously absurd.

7 Mr. Reiker testifies that having water stocks sell at 2.3 times book value is a
8 problem. When stocks are selling at or below book value, that stock is considered
9 to in major trouble.

10 To make matters really inconsistent, he testifies over and over that the cost
11 of capital can only be computed based on market forces, then recommends that his
12 market equity return should be applied to a book based rate base.

13 **Q. DIDN'T YOU COMPUTE THE COST OF CAPITAL IN THE SAME**
14 **MANNER?**

15 A. Yes, in fact my cost of capital computations I tried to replicate the methods Staff
16 has used of late in other cases. However, the more I read Mr. Reiker's testimony,
17 the more I realize that I should not have attempted to replicate his methods. Mr.
18 Reiker obviously did not look very closely at my schedules that compared Pine
19 Water to the nationally traded water companies. The major difference is that my
20 cost of capital recognizes Company specific risks, whereas Mr. Reiker only
21 recognizes financial risk arising from the ratio of debt to equity in the capital
22 structure.

23 **Q. MR. REIKER SIDE STEPS THE ISSUE THAT SMALLER WATER**
24 **UTILITIES IN YOUR SAMPLE MAY BE TARGETED FOR**
25 **ACQUISITION. WOULD YOU PLEASE ADDRESS THAT TOPIC?**

26 A. One only needs to look at the price earnings multiples (Market Price divided by the

1 earnings per share) to determine if the smaller companies are possible acquisition
2 candidates or not. Middlesex, Connecticut, and Southwest Water had above
3 average price earnings multiples at December 31, 2002. Aqua America, Inc.
4 (formerly Philadelphia Suburban) had a high price earnings ratio due to the return
5 on book equity.

6 **Q. HOW DO YOU PROPOSE THAT THE COST OF CAPITAL BE**
7 **COMPUTED?**

8 A. Comparable earnings should be used as the floor of what Pine Water is entitled to
9 earn on equity. *See* Bourassa Rejoinder Schedule D-4-1 showing the current and
10 authorized rates of return on equity as reported in C.A. Turner Utility Reports for
11 the nationally traded companies. The simple averages of these figures are 9.54
12 percent and 10.31 percent, respectively. The actual returns exceed Mr. Reiker's
13 recommended equity return in the instant case by .54 percent to 1.31 percent,
14 respectively.

15 Value Line projects equity returns for 2004 and for 2006-2008 to be 10.5
16 and 12 percent, respectively. *See* Bourassa Rejoinder Schedule D-4-2. The
17 estimated returns projected by Value Line exceed Mr. Reiker's recommended
18 equity return in the instant case by 1.5 percent to 3.0 percent.

19 **Q. DOES MR. REIKER HAVE A PROBLEM WITH PROJECTED**
20 **EARNINGS?**

21 A. Yes, he is of the opinion that projected earnings are usually too high. *See* Reiker
22 Sb. at 10. He cites Jeremy J. Siegel, *Stocks for the Long Run*, as the basis for this
23 opinion.

24 **Q. DOES MR. REIKER HAVE A PROBLEM WITH USING COMPARABLE**
25 **EARNINGS?**

26 A. Yes, he is of the opinion that the approach is circular. *Id.* at 15. Additionally, he

1 opines that comparable earnings cannot be used due to the market to book ratio
2 being above 1; that DCF and CAPM have supplemented modern corporate finance,
3 and comparable earnings approach does not rest easily on the concept of
4 opportunity cost, which the cost of equity represents. *Id.*

5 **Q. BUT ISN'T MR. REIKER'S COST OF CAPITAL PREMISED ON**
6 **RETURNS BASED ON WATER UTILITIES?**

7 A. Yes. Both Mr. Reiker's cost of capital study and my cost of capital study are
8 premised on returns from water utilities. I guess what he means is that circular
9 reasoning is contained throughout the studies.

10 **Q. WHAT ARE THE ADVANTAGES OF THE COMPARABLE EARNINGS**
11 **METHOD, AS COMPARED TO THE DCF AND CAPM METHODS OF**
12 **DETERMINING AN EQUITY RETURN?**

13 A. The following quote is from Roger Morin's *Utilities Cost of Capital*, Public
14 Utilities Reports, 1984, at 229:

15 "The comparable earnings standard is easy to calculate, and
16 the amount of subjective judgment required is minimal. The
17 method avoids several of the subjective factors involved in
18 other cost of capital methodologies. For example, the DCF
19 approach requires the determination of the growth rate
20 contemplated by investors, which is a subjective factor. This
21 method avoids several of the subjective factors. The CAPM
22 requires the specification of several expectational variables,
23 such as market return and beta. In contrast, the comparable
24 earnings approach makes use of simple readily available
25 accounting data; return on book equity data is widely
26 available on computerized data bases for most public
companies and for a wide variety of market indices."

* * * *

23 "The method is easily understood, and is firmly anchored in
24 regulatory tradition. The method is not influenced by the
25 regulatory process to the same extent as market-based
26 methods such as the DCF and CAPM. The base to which the
comparable earnings standard is applicable is the utility's
book common equity, which is much less vulnerable to
regulatory influences than stock price which is the base to

1 which the market-based standards are applied. Stock price
2 can be influenced by the actions of regulators.”

3 (Emphasis added).

4 **Q. WHAT ARE THE DISADVANTAGES OF THE COMPARABLE**
5 **EARNINGS METHOD?**

6 A. Again quoting from Dr. Morin: “The apparent simplicity of the method is
7 overshadowed by several practical difficulties encountered in executing the
8 method, some which are more illusory than real.” *Id.* at 230. (Emphasis added).
9 These practical difficulties include risk comparability, circularity, time period,
10 measurement error, and conceptual shortcomings. Dr. Morin lists the criteria for
11 selecting comparable companies comparable in risk to a specified utility might be
12 screened from a computer base using the following:

- 13 (1) They should have a standard deviation of market return and/or beta
14 as close as possible to the subject utility;
- 15 (2) They should be publicly traded companies to ensure data availability;
- 16 (3) They should have a given Value Line rating indicating a degree of
17 safety similar to the subject utility;
- 18 (4) They should have a given Standard & Poor’s quality rating
19 comparable to the subject utility; and
- 20 (5) The companies should be non-regulated industries so as to avoid
21 circularity problems.

22 *Id.* As Pine Water Company’s stock is not publicly traded, meeting these criteria is
23 very difficult.

24 **Q. DOES DR. MORIN PROVIDE ANY GUIDANCE ON MR. REIKER’S**
25 **CIRCULARITY ARGUMENT?**

26 A. As to the problem of circularity, Dr. Morin states the “care must be taken not to
include other utilities in the sample, since the rate of return on other utilities
depend on the allowed rate of return.” *Id.* This is an obvious problem, as there are

1 few, if any industrials that meet the above 5 criteria when applied to the water
2 industry. Both Staff and I used these same water companies to derive their
3 recommended rates of return. However, use of the actual and projected returns on
4 water companies is simple, and non-subjective

5 Similarly, as to time period, Dr. Morin writes that "Historical returns on
6 equity vary from year to year, responding to the cyclical forces of recession and
7 expansion and to economic, industry-specific marked and company specific
8 trends." *Id.* at 231. In the instant case, I showed the actual returns earned by
9 companies in the water industry from 2000 to 2002, and the returns were
10 increasing. *See* Bourassa Dt. at Schedule D-4.22. I listed the returns of these water
11 companies through April 2003, via inclusion of the C.A. Turner returns. *Id.* at
12 Schedule D-2, Page 1. Finally, I listed the projected or expected returns from
13 Value Line. *Id.* at Schedule D-4.4, Page 1.

14 **Q. ANYTHING ELSE FROM DR. MORIN THAT CONTRADICTS MR.**
15 **REIKER'S ANALYSIS?**

16 A. Dr. Morin's concern with measurement error deals with the various options
17 available under generally acceptable accounting principles, which could lead to
18 differences in inter-company accounting, which would make the financial
19 statements misleading. All the sample companies I used are required to follow the
20 National Association of Regulatory Utility Commissioners' Uniform System of
21 Accounts. Thus, this disadvantage should not occur.

22 Dr. Morin summarizes the disadvantages as follows:

23 All of the conceptual flaws in the comparable earning
24 standard discussed in this section boil down to a repudiation
25 of the core assumptions that accounting rates of return are
26 valid proxies for opportunity costs. The Comparable
Earnings test does not rest well with economic theory. But, if
the basic purpose of Comparable Earnings is not to determine
the true economic return, then all the arguments of this

1 section evaporate. If regulation considers a fair return as one
2 which is equal to the book rates of return earned by
3 comparable risk firms rather than one which is equal to the
4 cost of capital of such firms, the Comparable Earning test is
relevant. This narrow definition of fairness, rooted in the
traditional legalistic interpretation of the Hope language,
validates the Comparable Earning test." *Id.* at 235.

5 **Q. AGAIN, WHAT RETURN ON COMMON EQUITY ARE YOU**
6 **RECOMMENDING?**

7 A. The minimum return on common equity should be the 12.00% cited in Value Line.
8 This rate of return is premised on book valued equity, which the Commission will
9 apply in the instant case.

10 **VI. RATES AND RATE DESIGN.**

11 **Q. PLEASE DISCUSS YOUR REBUTTAL RATE SCHEDULES?**

12 A. Rejoinder Schedule H-3 shows the Company's proposed rejoinder rates.

13 **Q. DOES STAFF CONTINUE TO PROPOSE AN INCREASING BLOCK TIER**
14 **RATE STRUCTURE REGARDLESS OF METER SIZE?**

15 A. Yes. Staff continues to advocate a one "size fits all" approach. In Staff's opinion,
16 "...the rate structure should be uniform and non-discriminatory regardless of the
17 meter size, especially when you consider Pine's water shortage situation." *See*
18 *Fernandez Sb.* at 12.

19 **Q. DOES STAFF PROVIDE ANY SUPPORT OR EVIDENCE TO WHY THE**
20 **TIER STRUCTURE SHOULD BE UNIFORM AND NON-**
21 **DISCRIMINATORY?**

22 A. No.

23 **Q. IS STAFF'S "ONE SIZE FITS ALL" TIER STRUCTURE MORE**
24 **APPROPRIATE THAN THE COMPANY'S DESIGN?**

25 A. No. Under the Company's rate design approach, rates are better designed to
26 encourage large-volume customers with larger meters to reduce their water usage.

1 The Company's design provides a better conservation price signal to large metered
2 customers. As I testified in my direct testimony, the Company's tiers are more
3 attainable for larger metered customers. That is, there is more incentive for larger
4 metered customers to reduce their average consumption below the higher cost tiers
5 primarily because the lower cost tiers for larger meters are more attainable. See
6 Bourassa Dt. at 35

7 **Q. ARE THERE OTHER REJOINDER SCHEDULES REGARDING RATE**
8 **DESIGN?**

9 A. Yes. Rejoinder Schedule H-1 shows the revenue summary for the rebuttal rates.
10 Rejoinder Schedule H-2 shows the analysis of revenues by customer class.

11 **Q. IS THE COMPANY PROPOSING TO AMEND ITS WATER HAULING**
12 **ADJUSTER MECHANISM?**

13 A. Yes. As I explained above, the Company now proposes an adjustment to remove
14 test year transportation expense, i.e., the Project Magnolia wheeling fees from test
15 year operating expenses. Instead, the Company proposes to recover the wheeling
16 fees in addition to water hauling costs via the Surcharge Tariff.

17 **Q. WHAT ADVANTAGES DOES THIS HAVE FOR THE COMPANY AND**
18 **ITS RATEPAYERS?**

19 A. The primary benefit is this is now actual cost recovery of only the actual costs of
20 water purchased for and delivered through Project Magnolia. This means the
21 Company benefits by not under collecting its costs through rates when the
22 wheeling fees are greater than the test year amount and the rate payer benefits by
23 not over paying costs through rates when wheeling fees are less than the test year
24 amount, all of which is a function of water supply. For example, if \$174,000 of
25 wheeling fees are included in base rates on a going forward basis and the Company
26 incurs \$250,000 in wheeling fees, the Company will under collect its costs through

1 rates. On the other hand, if the Company only incurs \$100,000 of wheeling fees,
2 the Company will over collect its costs from ratepayers through rates.

3 **Q. WHAT ABOUT BUI?**

4 A. BUI has the investment and financial risks associated with Project Magnolia
5 regardless of whether wheeling costs are included in base rates or are collected
6 under the Surcharge Tariff. BUI's investment risk is that the revenues and return
7 on its investment will continue to be entirely dependent upon the amount of water
8 delivered through Project Magnolia, either from Strawberry to Pine or from Pine to
9 Strawberry. If zero gallons are delivered through Project Magnolia in either
10 direction, BUI collects nothing, earns nothing, and continues to bear the operating
11 and maintenance costs. BUI bears the risks encompassed by the volatility in water
12 volume delivered via the pipeline. On the other hand, BUI should be entitled to the
13 rewards associated with this risk.

14 **Q. WHAT IS THE CURRENT CONTRACTUAL RATE FOR WATER**
15 **DELIVERED THROUGH PROJECT MAGNOLIA?**

16 A. Pine Water currently pays \$15 per thousand gallons. This will not change.

17 **Q. IS THIS FEE REASONABLE?**

18 A. The Company has already provided substantial evidence supporting the \$15
19 wheeling fee. *See Hardcastle Rb. at 28-29.* In short, and in light of the fact that the
20 market rate for trucking water is \$38 to \$43 per thousand, \$15 is very reasonable.

21 **Q. DOES STAFF CALCULATE A WHEELING CHARGE?**

22 A. Yes, Staff calculated a required fee of \$7.02 per thousand gallons based on the test
23 year gallons delivered of 11,643,000 gallons and a rate of return of 10.62 percent.
24 *See Fernandez Sb. at 7.* However, Staff's calculation does not include a gross-up
25 for income taxes nor does it reflect a rate of return commensurate with the
26 investment risk BUI has in Project Magnolia. The already low return of 10.62

1 percent suggested by Staff, actually results in a 7.58 percent return when income
2 taxes are included. When income taxes (using a 40% tax rate) are included in
3 Staff's computation, the 10.62 percent return produces a required fee of \$8.60 per
4 thousand.

5 However, as I testified, a return of 10.62 percent, given the risks is low.
6 Rates of 15 percent and 20 percent produce a required fee of \$10.87 per thousand
7 gallons and \$13.47 per thousand gallons, respectively. While 15 or 20 percent
8 returns seem high, in my opinion, they are not out of line, and are possibly even
9 low, given that BUI's return on investment is not guaranteed and is volatile. For
10 example, at half the gallons delivered through the pipeline in 2002, the required fee
11 becomes \$21.75 per thousand and \$26.93 per thousand, at 15 and 20 percent,
12 respectively. BUI's return on investment drops to 8.51 percent at half the gallons
13 delivered when the fee is fixed at \$15 per thousand. On the other hand, at 1.5 times
14 the gallons delivered in 2002, the required fee becomes \$7.25 per thousand and
15 \$8.98 per thousand, respectively. BUI's return on investment increases to 37.39
16 percent at 1.5 times the water delivered when the fee is fixed at \$15 per thousand.

17 The contract rate is \$15 per thousand regardless of the number of gallons
18 delivered. The fee is not charged on a sliding scale based on water volume
19 delivered. In addition, there is no standby charge to cover BUI's minimum costs of
20 operating the pipeline or earning a return. The ratepayers of Pine Water do not
21 have the investment risk of BUI. They will only pay for the water delivered to
22 them.

23 **Q. HAS BUI RECOVERED ANY OF ITS INVESTMENT IN PROJECT**
24 **MAGNOLIA SINCE IT WENT OPERATIONAL IN FEBRUARY 2001?**

25 **A.** No, unless we count increasing inter-company payable accounts, which will not
26 likely be repaid. Nor has Pine water been able to pay for the water itself, which is

1 purchased from Strawberry Water and paid for by BUI. Notably, Staff suggests
2 that BUI transfer the inter-company payable to Pine Water's equity or even forgive
3 the debt. See Bourassa Rejoinder Exhibit 10

4 **Q. WHAT CLAIMS HAS THE DISTRICT MADE REGARDING THE COST**
5 **OF WATER DELIVERED THROUGH PROJECT MAGNOLIA?**

6 A. The District claims the mark-up on this water supply is 6.81 times its cost. See
7 Jones Sb. at 6. My calculations, however, show a mark-up of approximately 4.87
8 times cost. I calculate this as follows: Annual operating costs of \$35,884 divided
9 by 11,643 gallons (in 1,000's) equals \$3.08 per thousand gallons. Dividing \$15 per
10 thousand gallons by \$3.08 per thousand gallons equals 4.87 time mark-up. The
11 District implies that the mark-up is exorbitant. Of course, it should be obvious that
12 Mr. Jones' methodology does not include anything but cost recovery, return on the
13 investment and taxes have been eliminated.

14 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

15 A. Yes, it does.

16 1513413.1/75206.006

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EXHIBIT

1

General Ledger Listing as of Dec 31 00

G/L listing for account [105.00] to [105.00],
for department [] to [zzzzzz],
for fiscal period [1] to [12],
sorted by (Account),
(Exclude) accounts with no activity.
Printed in (standard) format.

Last posting sequence number: 31

Acct.	Dept.	Dr	Date	Description	Reference	Debit	Credits	Net Change	Balance
105.00				CIP - Project Magnolia					0.00
			9 GL-01 Sep 30 00	Reclass Expenses Keyed in BUI	AJE #000925	1,808.42			
			9 GL-01 Sep 30 00	Reclass Expenses Keyed in BUI	AJE #000925	53.44			
			9 GL 01 Sep 30 00	Reclass expenses Keyed in BUI	AJE #000925	455.00			
			9 GL-01 Sep 30 00	Record Interco Rec & Payable	AJE #000926	749.25			
			9 GL-01 Sep 30 00	Record Interco Rec & Payable	AJE #000926	749.25		3,815.36	3,815.36
			10 GL-01 Oct 31 00	Reclass Capital Exp.-Magnolia	AJE #001012	16,351.89		16,351.89	20,167.25
			11 AP-CN Nov 09 00	322- 364- 25 174778 HUGHES SUPPL			36,193.80		
			11 AP-IN Nov 01 00	321- 363- 19 10/00 INTERMOUNTAIN		1,711.00			
			11 AP-IN Nov 01 00	321- 363- 20 173-0319465 GRAYBAR ELEC		139.01			
			11 AP-IN Nov 01 00	322- 364- 1 173-0327484 GRAYBAR ELEC		5,395.36			
			11 AP-TN Nov 01 00	322- 364 28 157781 HUGHES SUPPL		55,505.12			
			11 AP IN Nov 07 00	321- 363- 8 167454 HUGHES SUPPL		209.55			
			11 AP-IN Nov 07 00	322- 364- 20 171443 HUGHES SUPPL		792.52			
			11 AP-IN Nov 08 00	321- 363- 14 38576201 CENTRAL ARTZ		22.03			
			11 AP-IN Nov 08 00	322- 364- 24 174777 HUGHES SUPPL		33.75			
			11 AP-IN Nov 09 00	319- 361- 4 5239851 FOXWORTH-GAL		21.86			
			11 AP-IN Nov 09 00	320- 362- 1 686728 BUD'S PLUMBI		108.75			
			11 AP-IN Nov 10 00	322- 364- 21 175681 HUGHES SUPPL		122.47			
			11 AP-IN Nov 10 00	322- 364- 22 175679 HUGHES SUPPL		672.57			
			11 AP-IN Nov 10 00	322- 364- 23 175678 HUGHES SUPPL		61.53			
			11 AP-IN Nov 10 00	322- 364- 26 175680 HUGHES SUPPL		31.10			
			11 AP-IN Nov 10 00	322- 364- 27 175677 HUGHES SUPPL		31.10			
			11 AP-IN Nov 13 00	321 363- 6 5240303 FOXWORTH GAL		35.38			
			11 AP-TN Nov 14 00	321- 363- 3 PD CK #1531. BROOKE UTILI		144.30			
			11 AP-IN Nov 14 00	322- 364- 17 2210019106 INVENSYS MET		1,502.72			
			11 AP-IN Nov 16 00	321- 363- 9 412 GLENN HALE		2,590.00			
			11 AP-IN Nov 17 00	322- 364- 19 691203 ABLE/BUDS PI		47.74			
			11 AP-TN Nov 20 00	324- 366- 2 39261301 CENTRAL ARIZ		27.56			
			11 AP IN Nov 21 00	322- 364- 18 692805 ABLE/BUDS PL		43.44			
			11 AP-IN Nov 22 00	326- 368- 3 120484 ENGINEFFRED S		2,099.93			
			11 AP-IN Nov 27 00	324- 366- 7 693982 ABLE/BUDS PL		21.99			
			11 GL-01 Nov 30 00	Reclass Cap Exp. to CIP	AJE #001119	178.09			
			11 GL-01 Nov 30 00	Reclass Exp.	AJE #001122	260.00			
			11 GL 01 Nov 30 00	Reclass Exp.	AJE #001122	350.00		35,914.07	56,081.32
			12 AP-CN Dec 15 00	334- 377- 25 11010281 EDSON ELECTR			182.17		
			12 AP-CN Dec 22 00	332- 375- 19 217787 HUGHES SUPPL			1,060.00		
			12 AP-IN Dec 01 00	325- 367- 6 413 GLENN HALE		2,555.00			
			12 AP-IN Dec 01 00	327- 369 10 11/00 INTERMOUNTAIN		16,295.00			
			12 AP-IN Dec 01 00	327- 369- 18 70051 TETRA TECH A		2,546.25			
			12 AP-IN Dec 01 00	330- 373- 33 39900201 CENTRAL ARIZ		48.91			
			12 AP-IN Dec 04 00	327- 369- 14 697365 ABLE/BUDS PI		126.74			

General Ledger Listing as of Dec 31 00

Acct.	Dept.	Pd Srce	Date	Description	Reference	Debits	Credits	Net Change	Balance
105.00				CIP - Project Magnolia	(continued)				
		12	AP-IN Dec 04 00	330- 373- 23	200308 HUGHES SUPPL	108.94			
		12	AP-IN Dec 05 00	330- 373- 20	198425 HUGHES SUPPL	1,253.17			
		12	AP-IN Dec 05 00	330- 373- 21	198426 HUGHES SUPPL	216.07			
		12	AP-IN Dec 05 00	330- 373- 22	198427 HUGHES SUPPL	56.60			
		12	AP-IN Dec 06 00	327- 369- 15	699051 ABLE/BUDS PL	27.49			
		12	AP-IN Dec 07 00	327- 369- 1	34070 B & M RENTAL	35.00			
		12	AP-IN Dec 07 00	330- 373- 19	200982 HUGHES SUPPL	35,469.92			
		12	AP-IN Dec 07 00	334- 377- 21	11009920 EDSON ELECTR	191.76			
		12	AP-IN Dec 08 00	334- 377- 4	202467 HUGHES SUPPL	787.06			
		12	AP-IN Dec 11 00	330- 373- 45	138854 GILA COUNTY	32.93			
		12	AP-IN Dec 11 00	330- 373- 46	138846 GILA COUNTY	43.29			
		12	AP-IN Dec 12 00	332- 375- 6	1952664-001 SUNSTATE EQU	1,080.59			
		12	AP-IN Dec 12 00	334- 377- 5	205186 HUGHES SUPPL	437.51			
		12	AP-IN Dec 12 00	334- 377- 6	205187 HUGHES SUPPL	68.97			
		12	AP-IN Dec 13 00	328- 370- 1	12/13/00 LUMBERMAN'S	1,368.57			
		12	AP-IN Dec 13 00	330- 373- 32	40528101 CENTRAL ARIZ	27.85			
		12	AP-IN Dec 14 00	332- 375- 17	302633 PAYSON CONCR	85.79			
		12	AP-IN Dec 15 00	330- 373- 9	302619 PAYSON CONCR	129.57			
		12	AP-IN Dec 15 00	330- 373- 16	414 GLENN HALE	3,000.00			
		12	AP-IN Dec 15 00	330- 373- 34	209134 HUGHES SUPPL	15.48			
		12	AP-IN Dec 15 00	332- 375- 13	210297 HUGHES SUPPL	1,076.35			
		12	AP-IN Dec 15 00	332- 375- 15	29828 B & M RENTAL	36.41			
		12	AP-IN Dec 15 00	334- 377- 7	210296 HUGHES SUPPL	289.30			
		12	AP-IN Dec 15 00	334- 377- 24	11010783 EDSON ELECTR	20.11			
		12	AP-IN Dec 18 00	330- 373- 8	302630 PAYSON CONCR	122.88			
		12	AP-IN Dec 18 00	334- 377- 8	210358 HUGHES SUPPL	964.88			
		12	AP-IN Dec 18 00	334- 377- 22	11010342 EDSON ELECTR	4.60			
		12	AP-IN Dec 18 00	334- 377- 23	11010341 EDSON ELECTR	164.47			
		12	AP-IN Dec 19 00	330- 373- 7	29823 B & M RENTAL	34.34			
		12	AP-IN Dec 19 00	330- 373- 35	76358 ACE HARDWARE	23.30			
		12	AP-IN Dec 19 00	334- 377- 9	211978 HUGHES SUPPL	29.91			
		12	AP-IN Dec 19 00	334- 377- 10	211914 HUGHES SUPPL	180.55			
		12	AP-IN Dec 20 00	332- 375- 3	706210 ABLE/BUDS PL	55.83			
		12	AP-IN Dec 21 00	332- 375- 7	1959855-001 SUNSTATE EQU	346.36			
		12	AP-IN Dec 21 00	334- 377- 3	70440 TETRA TECH A	707.22			
		12	AP-IN Dec 22 00	334- 377- 11	12/22/00 INTERMOUNTAI	498.47			
		12	AP-IN Dec 26 00	332- 375- 16	302654 PAYSON CONCR	85.73			
		12	AP-IN Dec 28 00	334- 377- 13	41312901 CENTRAL ARIZ	23.03			
		12	AP-IN Dec 30 00	332- 375- 5	026594 CARQUEST OF	14.87			
		12	AP-IN Dec 30 00	334- 377- 12	5245659 FOXWORTH GAL	32.77			
		12	AP-IN Dec 31 00	332- 375- 20	12/00 INTERMOUNTAI	202,871.00			
						365,865.96	37,435.97	272,348.67	328,429.99 *
									328,429.99

82 transactions printed.
1 account printed.

General Ledger Listing as of Dec 31 01

G/L listing for account [105.00] to [105.00],
for department [] to [zzzzzz],
for fiscal period [1] to [12],
sorted by (Account).
(Exclude) accounts with no activity.
Printed in (Standard) format.

Last posting sequence number: 17

Acct.	Dept.	Pd Srce	Date	Description	Reference	Debits	Credits	Net Change	Balance
105.00				CIP - Project Magnolia					328,429.99
		1 AP-CN	Jan 17 01	336- 379- 2	718153 ABLE/BUDS PL		3.20		
		1 AP-CN	Jan 23 01	337- 380- 33	721284 ABLE/BUDS PL		35.96		
		1 AP-IN	Jan 01 01	337- 380- 20	222020 HUGHES SUPPL	166.05			
		1 AP-TN	Jan 01 01	337 380- 21	222066 HUGHES SUPPL	539.72			
		1 AP-IN	Jan 01 01	337- 380- 26	222030 HUGHES SUPPL	61.97			
		1 AP-IN	Jan 01 01	336- 379- 17	2099 NASH ELECTRI	873.46			
		1 AP-IN	Jan 03 01	333- 376- 3	416 GLENN HALE	3,067.20			
		1 AP-IN	Jan 03 01	336 379- 1	711662 ABLE/BUDS PL	93.03			
		1 AP-IN	Jan 04 01	333- 376- 4	711668 ABLE/BUDS PL	799.87			
		1 AP IN	Jan 05 01	337- 380- 22	226955 HUGHES SUPPL	743.60			
		1 AP-IN	Jan 05 01	337- 380- 23	226958 HUGHES SUPPL	108.13			
		1 AP-IN	Jan 05 01	337- 380- 24	226957 HUGHES SUPPL	451.36			
		1 AP-TN	Jan 05 01	337- 380 25	226956 HUGHES SUPPL	639.43			
		1 AP IN	Jan 06 01	335- 378- 7	5246269 FOXWORTH-GAL	30.34			
		1 AP-IN	Jan 08 01	337- 380- 39	713100 ARI F/BUDS PL	229.24			
		1 AP-IN	Jan 08 01	335- 378- 12	713096 ABLE/BUDS PL	94.65			
		1 AP-IN	Jan 09 01	337 380- 19	229717 HUGHES SUPPL	185.57			
		1 AP-TN	Jan 09 01	335- 378 2	714014 ABLE/BUDS PL	53.17			
		1 AP-IN	Jan 09 01	335- 378- 14 PD CK #1541A	BROOKE UTILI	6.89			
		1 AP-IN	Jan 09 01	336- 379- 27	41895601 CENTRAL ARIZ	285.80			
		1 AP-IN	Jan 10 01	335- 378- 3	714980 ABLE/BUDS PL	8.01			
		1 AP-IN	Jan 10 01	335 378- 10	5246662 FOXWORTH GAL	78.81			
		1 AP-IN	Jan 11 01	336- 379- 5	11011782 EDSON ELECTR	71.27			
		1 AP IN	Jan 11 01	336- 379- 6	5246785 FOXWORTH-GAL	10.66			
		1 AP-IN	Jan 17 01	336- 379- 3	718152 ABLE/BUDS PL	35.15			
		1 AP-IN	Jan 17 01	336- 379- 8	5247255 FOXWORTH-GAL	15.24			
		1 AP-TN	Jan 18 01	336- 379 7	5247407 FOXWORTH-GAL	20.14			
		1 AP-IN	Jan 18 01	336- 379- 10	771971 ACE HARDWARE	19.42			
		1 AP-IN	Jan 18 01	336- 379- 18	417 GLENN HALE	3,000.00			
		1 AP-IN	Jan 19 01	337- 380- 14	70699 TETRA TECH A	3,279.24			
		1 AP-IN	Jan 22 01	337 380- 18	5247676 FOXWORTH GAL	31.69			
		1 AP-IN	Jan 22 01	337- 380- 32	720794 ABLE/BUDS PL	5.30			
		1 AP IN	Jan 22 01	337- 380- 37	720296 ARI F/BUDS PL	32.07			
		1 AP-IN	Jan 22 01	337- 380- 38	720288 ABLE/BUDS PL	34.92			
		1 AP-IN	Jan 22 01	337- 380- 40	42606801 CENTRAL ARIZ	44.72			
		1 AP-IN	Jan 23 01	337- 380- 36	721281 ABLE/BUDS PL	40.08			
		1 AP-TN	Jan 25 01	337- 380 17	5248168 FOXWORTH-GAL	23.58			
		1 AP-IN	Jan 25 01	337- 380- 35	722610 ABLE/BUDS PL	43.78			
		1 AP IN	Jan 30 01	337- 380- 41	326 SEVFRN TRENT	1,615.00			
		1 AP-IN	Jan 31 01	337- 380- 34	725466 ABLE/BUDS PL	27.53			
		1 GL-01	Jan 31 01	Record Exp. in Imprest Account AJC #010114		71.00		16,397.93	344,827.92

General Ledger Listing as of Dec 31 01

Accl. Dept.	Pd Srce	Date	Description	Reference	Debits	Credits	Net Change	Balance
105.00			CIP - Project Magnolia	(continued)				
	2 AP-IN	Feb 01 01	340- 383- 3	302752 PAYSON CONCR	296.97			
	2 AP-IN	Feb 01 01	340- 383- 9	5746126 FOXWORTH-GAL	378.00			
	2 AP-IN	Feb 01 01	340- 383- 10	5247029 FOXWORTH-GAL	433.51			
	2 AP-IN	Feb 01 01	340- 383- 11	5247040 FOXWORTH-GAL	35.60			
	2 AP-IN	Feb 01 01	340- 383- 12	5248049 FOXWORTH-GAL	482.39			
	2 AP-IN	Feb 01 01	340- 383- 13	5248280 FOXWORTH-GAL		36.24		
	2 AP-IN	Feb 01 01	340- 383- 14	5748222 FOXWORTH GAL	44.65			
	2 AP-IN	Feb 01 01	340- 383- 15	5248967 FOXWORTH-GAL	794.79			
	2 AP-IN	Feb 01 01	340- 383- 16	5248898 FOXWORTH-GAL	14.47			
	2 AP-IN	Feb 01 01	340- 383- 17	302772 PAYSON CONCR	624.01			
	2 AP-IN	Feb 01 01	340- 383- 18	34638 B & M RENTAL	45.79			
	2 AP-IN	Feb 01 01	340- 383- 26	243324 HUGHES SUPPL	21.24			
	2 AP-IN	Feb 01 01	340- 383- 27	243325 HUGHES SUPPL	35.20			
	2 AP-IN	Feb 01 01	340- 383- 28	252113 HUGHES SUPPL	41.06			
	2 AP-IN	Feb 01 01	340- 383- 29	239441 HUGHES SUPPL	21.74			
	2 AP IN	Feb 01 01	340- 383- 30	246899 HUGHES SUPPL	53.94			
	2 AP-IN	Feb 01 01	340- 383- 31	246900 HUGHES SUPPL	70.76			
	2 AP-IN	Feb 01 01	340- 383- 32	246901 HUGHES SUPPL	105.40			
	2 AP-IN	Feb 01 01	340- 383- 33	246902 HUGHES SUPPL	124.13			
	2 AP-TN	Feb 01 01	340- 383- 34	246903 HUGHES SUPPL	308.27			
	2 AP IN	Feb 01 01	340- 383- 35	1/01 INIERMOUNTAI	29,643.00			
	2 AP-IN	Feb 01 01	342- 386- 3	7137 AERO DRILLIN	3,769.15			
	2 AP-IN	Feb 02 01	341- 384- 7	43312601 CENTRAL ARIZ	31.37			
	2 AP-TN	Feb 03 01	342- 386- 26	00P124.000 TERRANE ENGI	370.00			
	2 AP-IN	Feb 05 01	340- 383- 38	726863 ABLE/BUDS PL	1.31			
	2 AP IN	Feb 07 01	340- 383- 43	2170 CANYON KIM C	8,374.34			
	2 AP-IN	Feb 08 01	340- 383- 2	11012402 EDSON ELECTR	9.14			
	2 AP-IN	Feb 08 01	341- 384- 6	729753 ABLE/BUDS PL	165.64			
	2 AP-TN	Feb 11 01	342- 386- 25	534747 PHIPPS PAINT	210.00			
	2 AP-IN	Feb 13 01	343- 387- 7	731825 ABLE/BUDS PL	43.75			
	2 AP IN	Feb 15 01	342- 386- 2	77998 ACE HARWARE	38.87			
	2 AP-IN	Feb 15 01	342- 386- 23	420 GLENN HALE	1,500.00			
	2 AP-IN	Feb 20 01	342- 386- 5	5250853 FOXWORTH-GAL	14.39			
	2 AP-IN	Feb 20 01	342- 386- 6	5250855 FOXWORTH-GAL	26.27			
	2 AP IN	Feb 20 01	342- 386- 9	735006 ABLE/BUDS PL	483.80			
	2 AP-IN	Feb 21 01	343- 387- 6	44438201 CFNTRAL ARIZ	33.53			
	2 AP-IN	Feb 24 01	343- 387- 11	5251450 FOXWORTH-GAL	27.00			
	2 AP-IN	Feb 27 01	343- 387- 8	735726 ABLE/BUDS PL	61.23			
	2 AP-TN	Feb 27 01	343- 387- 10	5251664 FOXWORTH GAL	6.46			
	2 AP-IN	Feb 28 01	342- 386- 27	B01 BROOKE UTILI	54.11			
	2 AP-IN	Feb 28 01	342- 386- 27	B01 BROOKE UTILI	166.50			
	2 AP-IN	Feb 28 01	343- 387- 9	5251863 FOXWORTH-GAL	5.83			
	2 AP-IN	Feb 28 01	343- 387- 20	421 GLENN HALE	3,750.00			
	2 AP-IN	Feb 28 01	343- 387- 22	2/01 INIERMOUNTAI	27,836.00			
	2 GL-01	Feb 28 01	Record AJE #010208				80,515.37	425,343.29
	3 AP-CN	Mar 01 01	348- 392- 2	260919 HUGHES SUPPL		742.10		
	3 AP-CN	Mar 01 01	348- 392- 3	260920 HUGHES SUPPL		70.99		
	3 AP-CN	Mar 01 01	348- 392- 4	260921 HUGHES SUPPL		22.18		
	3 AP-IN	Mar 01 01	346- 390- 1	302805 PAYSON CONCR	147.02			
	3 AP-IN	Mar 01 01	346- 390- 2	44733601 CENTRAL ARIZ	45.43			

General Ledger Listing as of Dec 31 01

Acct.	Dept.	Pd	Src	Date	Description	Reference	Debits	Credits	Net Change	Balance
105.00					CIP - Project Magnolia	(continued)				
		3	AP-IN	Mar 01 01	346- 390- 3	739887 ABLE/BUOS PL	16.09			
		3	AP-IN	Mar 01 01	346- 390- 7	689-728236-1 W.W. GRAINGE	114.44			
		3	AP-IN	Mar 01 01	348 392- 12	418 GLENN HALE	3,000.00			
		3	AP-IN	Mar 08 01	348- 392- 14	45279001 CENTRAL ARIZ	264.41			
		3	AP-IN	Mar 12 01	348- 392- 8	5253125 FOXWORTH-GAL	32.40			
		3	AP-IN	Mar 15 01	348- 392- 7	5253583 FOXWORTH-GAL	51.52			
		3	AP-IN	Mar 15 01	349- 393- 6	424 GLENN HALE	420.00			
		3	AP-IN	Mar 15 01	349- 393- 8	423 GLENN HALE	420.00			
		3	AP-IN	Mar 15 01	349- 393- 9	12578 ABLE/BUOS PL		53.13		
		3	AP-IN	Mar 19 01	349- 393- 1	748513 ABLE/BUOS PL	55.99			
		3	AP-IN	Mar 20 01	349- 393- 10	12555 ABLE/BUOS PL		233.16		
		3	AP-IN	Mar 23 01	350- 394- 2	304627 HUGHES SUPPL	54.00			
		3	AP-IN	Mar 26 01	350- 394- 12	5254879 FOXWORTH-GAL	22.68			
		3	AP-IN	Mar 31 01	349- 393- 7	425 GLENN HALE	1,495.00		5,017.42	430,360.71
		4	AP-IN	Apr 01 01	355- 399- 1	7695849 TETRA TECH A	6,013.33			
		4	AP-IN	Apr 01 01	356- 400- 16	2073 NASH ELECTRI	773.61			
		4	AP-IN	Apr 01 01	356- 400- 17	2074 NASH ELECTRI	1,420.89			
		4	AP-IN	Apr 01 01	356- 400- 18	2086 NASH ELECTRI	3,459.66			
		4	AP-IN	Apr 10 01	355- 399- 17	4/10/01 INTERMOUNTA	1,122.12			
		4	AP-IN	Apr 18 01	357- 401- 12	17134879 TETRA TECH A	1,308.00			
		4	AP-IN	Apr 18 01	357- 401- 13	17134589 TETRA TECH A	717.75			
		4	AP-IN	Apr 20 01	357- 401- 8	332941 HUGHES SUPPL		49.10	14,716.76	443,076.97
		5	AP-IN	May 23 01	370- 415- 13	17668976 TETRA TECH A	637.00			
		5	AP-IN	May 24 01	370- 415- 18	5554 NASH ELECTRI	1,220.90			
		5	AP-IN	May 24 01	370- 415- 19	5555 NASH ELECTRI	1,163.73			
		5	AP-IN	May 31 01	370- 415- 11	5/31/01 BRENINGER, J	60.75		3,382.38	448,459.35
		6	AP-IN	Jun 01 01	375- 421- 2	731825 01 ABLE/BUOS PL	44.58			
		6	AP-IN	Jun 01 01	377 423- 7	17668977 TETRA TECH A	619.50		664.08	449,123.43
		7	AP-IN	Jul 21 01	392- 438 8	14368 TETRA TECH A	153.50		153.50	449,276.93
		11	AP-IN	Nov 30 01	439- 491- 1	1/02-12/02 USDA, FOREST	56.86		56.86	449,333.79
		12	AP-IN	Dec 01 01	443- 497- 7	2002 FEES USDA, FOREST	56.86		56.86	449,390.65
							122,206.72	1246.06		449,390.65

122 transactions printed.
1 account printed.

Date: Dec 31 02 12:39pm
G/L Listing

Brooke Utilities, Inc. 2002

Page: 1

General Ledger Listing as of Dec 31 02

G/L listing for account [105.00] to [105.00],
for department [] to [zzzzzz],
for fiscal period [1] to [12],
sorted by (Account).
(Exclude) accounts with no activity.
Printed in (Standard) format.

Last posting sequence number: 13

Acct.	Dept.	Pd Srce	Date	Description	Reference	Debits	Credits	Net Change	Balance
105.00				CIP - Project Magnolia					449,390.65
		3 AP IN	Mar 01 02	482- 536- 1 INV 10726	TETRA TECH A	208.00		208.00	449,598.65
		11 GL-01	Nov 30 02	Reclass CIP to FA	AJE #021114		449,598.65	449,598.65-	0.00 *
						208.00	449,598.65		0.00

2 transactions printed.
1 account printed.

EXHIBIT

2

Pine Water Company
Test Year Ended December 31, 2002
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page
Witness: Bourassa

Line

No.

1	Fair Value Rate base	\$	590,689
2			
3	Adjusted Operating Income		(4,548)
4			
5	Current Rate of Return		-0.77%
6			
7	Required Operating Income	\$	64,939
8			
9	Required Rate of Return on Fair Value Rate Base		10.99%
10			
11	Operating Income Deficiency	\$	69,486
12			
13	Gross Revenue Conversion Factor		1.2646
14			
15	Increase in Gross Revenue		
16	Requirement	\$	87,871

	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
18				
19	Customer			
20	<u>Classification</u>			
21	5/8 Inch Meter - Residential	\$626,494	\$707,036	\$ 80,542 12.86%
22	3/4 Inch Meter - Residential	468	658	190 40.53%
23	1 Inch Meter - Residential	4,441	6,306	1,865 42.00%
24	2 Inch Meter - Residential	194	463	269 138.84%
25	5/8 Inch Meter - Commercial	2,003	2,882	879 43.86%
26	1 Inch Meter - Commercial	2,647	3,351	703 26.57%
27	2 Inch Meter - Commercial	5,977	8,939	2,962 49.56%
28				
29	Revenues from Annualization	3,539	3,726	187 5.28%
30			-	0.00%
31			-	0.00%
32	Miscellaneous Revenues	8,436	8,436	- 0.00%
33			-	0.00%
34	Total of Water Revenues	<u>\$654,199</u>	<u>\$741,796</u>	<u>\$ 87,597 13.39%</u>

35
36
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44

SUPPORTING SCHEDULES:

Rejoinder B-1
Rejoinder C-1
Rejoinder C-3
Rejoinder H-1

Pine Water Company
Test Year Ended December 31, 2002
Summary of Fair Value Rate Base

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base
1		
2	Gross Utility Plant in Service	\$ 1,893,191
3	Less: Accumulated Depreciation	<u>1,223,741</u>
4		
5	Net Utility Plant in Service	\$ 669,450
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	52,072
10	Contributions in Aid of	
11	Construction - Net of amortization	463,392
12	Customer Meter Deposits	21,356
13	Deferred Income Taxes & Credits	-
14	Investment tax Credits	-
15	<u>Plus:</u>	
16	Unamortized Finance	
17	Charges	-
18	Deferred Tax Assets	369,000
19	Allowance for Working Capital	89,059
20	Citizens Acquisition Adjustment	-
21		
22	Total Rate Base	<u>\$ 590,689</u>
23		
24		
25		
26	<u>SUPPORTING SCHEDULES:</u>	
27	Rejoinder B-2	
28		
29		
30		
31		

RECAP SCHEDULES:
Rejoinder A-1

Pine Water Company
Test Year Ended December 31, 2002
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Rebuttal Adjusted End of Test Year	Proforma Label	Adjustment Amount	Rejoinder Adjusted End of Test Year
1	Gross Utility				
2	Plant in Service	\$ 1,952,732	(1)	(59,541)	\$ 1,893,191
3					
4	Less:				
5					
6	Accumulated				
7	Depreciation	1,228,209	(2)	(4,468)	1,223,741
8					
9	Net Utility Plant				
10	in Service	\$ 724,523			\$ 669,450
11					
12	Less:				
13	Advances in Aid of				
14	Construction	\$ 52,072			\$ 52,072
15	Contributions in Aid of				
16	Construction - Net	463,392			463,392
17					
18	Customer Meter Deposits	21,356			21,356
19	Deferred Income Taxes	-			-
20	Investment Tax Credits	-			-
21	Plus:				
22					
23	Deferred Tax Assets	369,000			369,000
24					
25	Working capital	108,806	(3)	(19,747)	89,059
26					
27					
28	Total	<u>\$ 665,509</u>			<u>\$ 590,689</u>

ADJUSTMENTS:

(1) Post test year plant	Rebuttal Filing Amount	\$ 61,138
	Rejoinder Amount*	1,597
	Adjustment	<u>\$ (59,541)</u>

* Pumping Equipment \$1,015 less retirement of \$988.
Meters of \$5,050 less retirement of \$3,480.

- (2) Retirements - Pumping Equip of \$988, Meters \$3,480.
(3) Change in working capital allowance.

SUPPORTING SCHEDULES:

RECAP SCHEDULES:
Rejoinder B-1

Pine Water Company
Test Year Ended December 31, 2002
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	69,408
3	Pumping Power (1/24 of Pumping Power)		1,539
4	Material and Supplies Inventories		-
5	Prepayments		18,111

6			
7			
8	Total Working Capital Allowance	\$	89,059

9			
10			
11	Working Capital Requested	\$	89,059

12			
13			
14	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
15	Rejoinder C-1	Rejoinder B-1	

16

Pine Water Company
Test Year Ended December 31, 2002
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.	Rebuttal Adjusted Test Year	Label	Rejoinder Adjustment	Rejoinder Test Year Adjusted Results	Proposed Rate Increase	Rejoinder Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues			\$ 645,612	87,871	\$ 733,483
3	Unmetered Water Revenues			-		-
4	Other Water Revenues			8,436		8,436
5	\$ 654,048		\$ -	\$ 654,048	\$ 87,871	\$ 741,919
6	Operating Expenses					
7	Salaries and Wages			\$ 125,296		\$ 125,296
8	Pension & Benefits			6,105		6,105
9	Purchased Water			57,835		57,835
10	Purchased Power			36,942		36,942
11	Chemicals			604		604
12	Materials & Supplies			43,730		43,730
13	Regulatory Water Testing			7,758		7,758
14	Contractual Services - Engineering			-		-
15	Contractual Services - Accounting			38,328		38,328
16	Contractual Services - Legal			66,430		66,430
17	Contractual Services - Other			22,805		22,805
18	Overhead Allocation - G&A			71,092		71,092
19	Rental of Equipment			-		-
20	Transportation Expenses	4	(174,645)	1,499		1,499
21	Worker's Comp			2,271		2,271
22	Insurances Medical/Dental			12,663		12,663
23	Telephone			2,631		2,631
24	Dues & Subscriptions			299		299
25	Bad Debt Expense			2,153		2,153
26	Misc Expenses			202		202
27	Office Supplies			4,080		4,080
28	Licenses & Permits			1,000		1,000
29	Repairs & Maintenance - Bldg			-		-
30	R&M Vehicles			-		-
31	Sales Tax Expense			0		0
32	Utility Reg. Assess. Fee			272		272
33	CAWCD Costs			21,501		21,501
34	Rate Case Expense	3	16,667	66,667		66,667
34	Depreciation Expense	1	(2,167)	33,409		33,409
35	Other Taxes and Licenses			45		45
36	Property Taxes	2	(3,654)	42,044		42,044
37	Income Tax			(9,067)	18,385	9,318
38				-		-
39	Total Operating Expenses		\$ (163,799)	\$ 658,595	\$ 18,385	\$ 676,980
40	Operating Income		\$ 163,799	\$ (4,548)	\$ 69,486	\$ 64,939
41	Other Income (Expense)					
42	Interest Income			-		-
43	Other Income			-		-
44	Income Tax Provision			-		-
45	Interest Expense	5	(10,194)	(29,721)		(29,721)
46	Other Expense			-		-
47	Gain/Loss Sale of Fixed Assets			-		-
48	Total Other Income (Expense)		\$ (10,194)	\$ (29,721)	\$ -	\$ (29,721)
49	Net Profit (Loss)		\$ (151,665)	\$ (34,268)	\$ 69,486	\$ 35,218

SUPPORTING SCHEDULES:
Rejoinder C-2

RECAP SCHEDULES:
Rejoinder A-1

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Line No.	1	2	3	4	5	6	Subtotal
	Depreciation Expense	Property Taxes	Rate Case Expense	Remove PM Wheeling Fees	Interest Expense	Reclassify Purchased Water Expense	
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							

Line No.	7	8	9	10	11	12	Subtotal
	Interest Expense	Income Taxes	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rejoinder Schedule C-2
Page 2
Witness: Bourassa

Line
No.

1	<u>Depreciation Expense</u>			
2				
3	<u>Account</u>			<u>Depreciation</u>
4	<u>No.</u>	<u>Description</u>	<u>Original Cost</u>	<u>Rate</u> <u>Expense</u>
5				
6	301	Organization	\$ -	0.00% \$ -
7	302	Franchises	-	0.00% -
8	303	Land and Land Rights	16,930	0.00% -
9	304	Structures and Improvements	160,067	3.33% 5,330
10	305	Collecting and Impounding Rese	-	2.50% -
11	306	Lake, River and Other Intakes	-	2.50% -
12	307	Wells and Springs	65,994	3.33% 2,198
13	308	Infiltration Galleries and Tun	-	6.67% -
14	309	Supply Mains	479	2.00% 10
15	310	Power Generation Equipment	-	5.00% -
16	311	Pumping Equipment	131,293	12.50% 16,412
17	320	Water Treatment Equipment	5,320	3.33% 177
18	330	Distribution Reservoirs and St	247,073	2.22% 5,485
19	331	Transmission and Distribution	990,291	2.00% 19,806
20	333	Services	80,461	3.33% 2,679
21	334	Meters and Meter Installations	193,687	8.33% 16,134
22	335	Hydrants	-	2.00% -
23	336	Backflow Prevention Devices	-	6.67% -
24	339	Other Plant and Miscellaneous	-	6.67% -
25	340	Office Furniture and Equipment	-	6.67% -
26	341	Transportation Equipment	-	20.00% -
27	342	Stores Equipment	-	4.00% -
28	343	Tools, Shop and Garage Equipment	-	5.00% -
29	344	Laboratory Equipment	-	10.00% -
30	345	Power Operated Equipment	-	5.00% -
31	346	Communication Equipment	-	10.00% -
32	347	Miscellaneous Equipment	-	10.00% -
33	348	Other Tangible Plant	-	0.00% -
34				
35				
36				
37				
38				
39				
40		TOTALS	<u>\$ 1,891,594</u>	<u>\$ 68,230</u>
41				
42				
43				
44	Proforma Plant (to be completed by 12/31/2003)		\$ 1,594	3.6396% 58
45				
46				
47				
48	Less: Amortization of Contributions		\$ 958,323	3.6396% (34,879)
49				
50	Total Depreciation Expense			<u>\$ 33,409</u>
51				
52	Test Year Depreciation Expense			<u>35,576</u>
53				
54	Increase (decrease) in Depreciation Expense			<u>(2,167)</u>
55				
56	Adjustment to Revenues and/or Expenses			<u>\$ (2,167)</u>
57				

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 2

Exhibit
Rejoinder Schedule C-2
Page 3
Witness: Bourassa

Line
No.

1	<u>Property Taxes</u>	
2		
3	Adjusted Revenues in year ended 12/31/02	\$ 654,048
4	Adjusted Revenues in year ended 12/31/02	654,048
5	Proposed Revenues	<u>741,919</u>
6	Average of three year's of revenue	<u>\$683,338</u>
7	Average of three year's of revenue, times 2	<u>\$1,366,676</u>
8	Add:	
9	Construction Work in Progress at 10%	
10	Deduct:	
11	Book Value of Transportation Equipment	-
12		
13	Total Book Value of Transportation Equipment	<u>\$ -</u>
14		
15	Full Cash Value	\$ 1,366,676
16	Assessment Ratio	<u>25%</u>
17	Assessed Value	<u>341,669</u>
18	Property Tax Rate	12.31%
19		
20	Property Tax	42,044
21	Tax on Parcels	-
22		
23	Total Property Tax at Proposed Rates	<u>\$ 42,044</u>
24	Property Taxes in the test year	<u>45,698</u>
25	Change in Property Taxes	<u>\$ (3,654)</u>
26		
27		
28	Adjustment to Revenues and/or Expenses	<u>\$ (3,654)</u>
29		
30		

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 5

Exhibit
Rejoinder Schedule C-2
Page 6
Witness: Bourassa

Line
No.

1 Synchronize Interest Expense with Rate Base

2

Proposed Rate Base per B-1

590,689

Weighted Cost of Debt

5.03%

3 Synchronized Interest Expense

\$ 29,721

4

5 Rebuttal Adjusted Test year Interest Expense

19,526

6

7 Increase (decrease) in Revenues/ Expenses

\$ 10,194

8

9

10

11

12 Adjustment to Revenue and/or Expense

\$ (10,194)

13

14 SUPPORTING SCHEDULES:

15 Rejoinder Schedule B-1

16 Rejoinder Schedule D-1

17

18

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 3

Exhibit
Rejoinder Schedule C-2
Page 4
Witness: Bourassa

Line
No.

1	<u>Rate Case Expense</u>		
2			
3	Rate Case Expense	\$	200,000
4	Amortization Period (Years)		3
5	Annual Amortization Expense	\$	66,667
6			
7	Rebuttal Rate Case Expense		<u>50,000</u>
8			
9	Increase (Decrease) Expense	\$	16,667
10			
11			
12	Adjustment to Revenues and/or Expense	\$	<u>16,667</u>
13			
14			

Pine Water Company
Test Year Ended December 31, 2002
Adjustments to Revenues and Expenses
Adjustment Number 4

Exhibit
Rejoinder Schedule C-2
Page 5
Witness: Bourassa

Line No.		
1	<u>Remove Test Year Project Magnolia Wheeling Fees from Transportation Expenses</u>	
2		
3	Test Year Transportation Expenses	\$ 176,144
4		
5	Test Year Exclusive of PM Wheeling Fees	<u>1,499</u>
6		
7		
8	Increase (Decrease) Expense	\$ (174,645)
9		
10		
11	Adjustment to Revenues and/or Expense	<u>\$ (174,645)</u>
12		
13		

Pine Water Company
Test Year Ended December 31, 2002
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	13.95%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	20.92%
9		
10	Operating Income % = 100% - Tax Percentage	79.08%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.2646
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rebuttal A-1
20		

Pine Water Company

Test Year Ended December 31, 2002

Summary of Cost of Capital

Exhibit

Rejoinder Schedule D-1

Page 1

Witness: Bourassa

Proposed End of Test Year

End of Projected Year

Line No.	Item of Capital	Proposed End of Test Year			End of Projected Year		
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total
1	Long-Term Debt (a)	219,353	50.32%	10.00%	5.03%	170,359	40.35%
2							
3	Stockholder's Equity (a)	216,604	49.68%	12.00%	5.96%	251,822	59.65%
4							
5	Totals	435,956	100.00%		10.99%	422,181	100.00%
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							

(a) Adjusted for proposed conversion of inter-company payable to debt and equity.

SUPPORTING SCHEDULES:

Rejoinder D-1, page 2

Rejoinder D-2

Pine Water Company
Test Year Ended December 31, 2002
Summary of Cost of Capital

Exhibit
Rejoinder Schedule D-1
Page 2
Witness: Bourassa

Actual End of Test Year Adjusted End of Test Year

Line No.	Dollar Amount	Label	Adjustment	Dollar Amount
1				
2	(152,996)	(a)	369,599	216,604
3				
4	(152,996)			216,604
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				

(a) Propose converting \$369,599 of \$533,599 inter-company payable to equity.

SUPPORTING SCHEDULES:

E-1

Pine Water Company
Test Year Ended December 31, 2002
Cost of Long Term Debt

Exhibit
Rejoinder Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	<u>Adjusted End of Test Year</u>			<u>End of Projected Year</u>		
		Amount Outstanding	Percent	Interest Rate	Composite Cost	Amount Outstanding	Percent
1							
2	Long-Term Debt	55,353	25.23%	10.00%	2.52%	32,971	19.35%
3	Long-Term Debt (a)	164,000	74.77%	10.00%	7.48%	137,388	80.65%
4							
5							
6							
7							
8							
9							
10	Totals	219,353	100.00%		10.00%	170,359	100.00%
11							
12	(a) Propose converting \$164,000 of the \$533,599 inter-company payable to long-term debt.						
13							
14							
15	Supporting Schedules:						
16							
17							
18							

Pine Water Company
Test Year Ended December 31, 2002
Returns on Equity of Nationally Traded Water
Utilities as Reported in C.A. Turner Utility Reports **(a)**
at January 2004

Exhibit
~~REDACTED~~ Schedule D-4
Page 1
Witness: Bourassa

Line No.		Authorize Rate of <u>Return</u>	Current Rate of <u>Return</u>
1	American States Water Co.	10.00%	8.10%
2	Aqua America (b)	10.15%	12.50%
2	Artesian Resources Corp.	10.50%	8.10%
3	California	8.90%	6.80%
4	Connecticut Water Service	12.70%	11.10%
5	Middlesex Water Co.	10.38%	9.30%
6	Pennichuck Corporation	10.33%	8.60%
7	SJW Corp.	9.95%	9.60%
8	Southwest Water	9.84%	10.20%
9	York Water		11.10%
10			
11	Simple Averages	<u>10.31%</u>	<u>9.54%</u>
12			
13			
14			
15			

16 **(a)** Data reported in C. A. Turner Utility Reports (January 2004).

18 **(b)** Formerly Philadelphia Suburan

Pine Water Company

Revenue Summary

With Annualized Revenues to Year End Number of Customers

Test Year Ended December 31, 2002

Exhibit

Rejoinder Schedule H-1

Page 1

Witness: Bourassa

Line No.	Meter Size	Customer Classification	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8 Inch	Residential 14A	\$ 507,049	\$ 574,698	\$ 67,650	13.34%	78.52%	78.37%
2	5/8 Inch	Residential 14B	119,446	132,338	12,892	10.79%	18.50%	18.05%
3								
4	3/4 Inch	Residential 14B	468	658	190	40.53%	0.07%	0.09%
5	1 Inch	Residential 14A	4,441	6,306	1,865	42.00%	0.69%	0.86%
6	2 Inch	Residential 14A	194	463	269	138.84%	0.03%	0.06%
7								
8								
9	5/8 Inch	Commercial 14A	2,003	2,882	879	43.86%	0.31%	0.39%
10	1 Inch	Commercial 14A	2,647	3,351	703	26.57%	0.41%	0.46%
11	2 Inch	Commercial 14A	5,977	8,939	2,962	49.56%	0.93%	1.22%
12								
13								
14								
15			\$ 642,224	\$ 729,635	\$ 87,410	13.61%	99.45%	99.49%
16								
17								
18								
19			\$ 3,539	\$ 3,726	187	5.28%	0.55%	0.51%
20								
21								
22								
23								
24			3,539	3,726	187	5.28%	0.55%	0.51%
25								
26			\$ 645,763	\$ 733,360	\$ 87,597		100.00%	100.00%
27								
28								
29								
30								
31								

(a) Customer Growth Annualization is not calculated. Change in customers is not due to growth.

Pine Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2002

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2002	Summer			Winter			Proposed Increase	
			Revenues		Average Consumption	Revenues		Average Consumption	Dollar Amount	Percent Amount
			Present Rates	Proposed Rates		Present Rates	Proposed Rates			
1	5/8 Inch Residential 14A	1,502	\$ 27.74	\$ 30.76	2,731	\$ 25.24	\$ 26.28	1,998	1.03	4.10%
2	5/8 Inch Residential 14B	360	29.50	30.05	2,614	26.32	25.26	1,707	(1.07)	-4.05%
3										
4	3/4 Inch Residential 14B	1	38.37	53.70	4,901	39.47	55.63	5,215	16.15	40.93%
5	1 Inch Residential 14A	2	203.75	244.36	31,834	185.91	214.00	28,836	28.09	15.11%
6	2 Inch Residential 14A	0	64.58	154.24	-	64.58	154.24	-	89.66	138.84%
7										
8										
9	5/8 Inch Commercial 14A	2	96.02	131.43	14,750	66.48	81.15	9,786	14.67	22.07%
10	1 Inch Commercial 14A	1	281.50	376.71	44,901	177.12	199.03	27,358	21.91	12.37%
11	2 Inch Commercial 14A	2	285.24	420.97	38,801	223.11	315.20	28,358	92.09	41.28%
12										
13										
14										
15										
16										
17										
18										
19										
20										
21										
22										
23										
24										
25										
26										
27										
28										
29										
30										
31										
32										
33										
34										
35										
36										
37										

Totals 1,871

Actual Year End Number of Customers: 1,884

(a) Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

Pine Water Company
Present and Proposed Rates
Test Year Ended December 31, 2002

Exhibit
Rejoinder Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change
1				
2				
3				
4	Rate Code Sheet 14A			
5	Monthly Usage Charge for:			
6	<u>Residential, Commercial</u>			
7	5/8 x 3/4 Inch	\$ 18.45	\$ 19.28	4.50%
8	3/4 Inch	21.22	28.92	36.29%
9	1 Inch	24.54	48.20	96.42%
10	1 1/2 Inch	36.90	96.40	161.25%
11	2 Inch	64.58	154.24	138.84%
12	3 Inch	92.25	308.48	234.40%
13	4 Inch	147.60	482.01	226.56%
14	6 Inch	-	964.01	0.00%
15	8 Inch	-	1,928.03	0.00%
16				
17	Rate Code Sheet 14B			
18	Monthly Usage Charge for:			
19	<u>Residential, Commercial</u>			
20	5/8 x 3/4 Inch	\$ 20.35	\$ 19.28	-5.26%
21	3/4 Inch	30.53	28.92	-5.27%
22	1 Inch	50.88	48.20	-5.27%
23	1 1/2 Inch	101.75	96.40	-5.26%
24	2 Inch	162.80	154.24	-5.26%
25	3 Inch	305.25	308.48	1.06%
26	4 Inch	508.75	482.01	-5.26%
27	6 Inch	1,017.50	964.01	-5.26%
28	8 Inch	-	1,928.03	0.00%
29				
30				
31				
32		Present Rates	Proposed Rates	
33	Rate Code Sheet 14A			
34	<u>Gallons In Minimum</u>			
35	All	-	-	
36				
37				
38	Rate Code Sheet 14B			
39	<u>Gallons In Minimum</u>			
40	All	-	-	
41				
42				
43				
44	Rate Code Sheet 14A			
45	Tier 1: Gallons upper limit (over 0 gallons (Present), 0 Gallons Proposed, but not over stated amount)			
46	5/8 Inch Residential and Commercial	4,000	2,000	
47	1 Inch and Larger Residential and Commercial	4,000	10,000	
48				
49				
50	Rate Code Sheet 14B			
51	Tier 1: Gallons upper limit (over 0 gallons (Present), 0 Gallons Proposed, but not over stated amount)			
52	5/8 Inch Residential and Commercial	999,999,999	2,000	
53	1 Inch and Larger Residential and Commercial	999,999,999	10,000	
54				
55				

Pine Water Company
Present and Proposed Rates
Test Year Ended December 31, 2002

Exhibit
Rejoinder Schedule H-3
Page 2
Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Summer Proposed Rates	
1				
2	Rate Code Sheet 14A			
3	<u>Tier 2: (Gallon upper limit, up to, but not exceeding)</u>			
4	5/8 Inch Residential and Commercial	999,999,999	8,000	
5	1 Inch and Larger Residential and Commercial	999,999,999	25,000	
6				
7				
8	Rate Code Sheet 14B			
9	<u>Tier 2: (Gallon upper limit, up to, but not exceeding)</u>			
10	5/8 Inch Residential and Commercial	999,999,999	8,000	
11	1 Inch and Larger Residential and Commercial	999,999,999	25,000	
12				
13				
14	Rate Code Sheet 14A			
15	<u>Tier 3: (Gallon over)</u>			
16	5/8 Inch Residential and Commercial	999,999,999	999,999,999	
17	1 Inch and Larger Residential and Commercial	999,999,999	999,999,999	
18				
19				
20	Rate Code Sheet 14B			
21	<u>Tier 3: (Gallon over)</u>			
22	5/8 Inch Residential and Commercial	999,999,999	999,999,999	
23	1 Inch and Larger Residential and Commercial	999,999,999	999,999,999	
24				
25				
26				
27		Present Rates	Summer* Proposed Rates	Winter* Proposed Rates
28				
29	Rate Code Sheet 14A			
30	<u>Commodity Rates (per 1,000 gallons over minimum and per Tier) (A)</u>			
31	All Tier 1	\$ 3.40	\$ 3.50	\$ 3.50
32	All Tier 2	5.95	6.13	6.13
33	All Tier 3	5.95	10.13	10.13
34	All Tier 4	5.95	10.13	10.13
35				
36				
37	Rate Code Sheet 14B			
38	<u>Commodity Rates (per 1,000 gallons over minimum and per Tier)</u>			
39	All Tier 1	\$ 3.50	\$ 3.50	\$ 3.50
40	All Tier 2	3.50	6.13	6.13
41	All Tier 3	3.50	10.13	10.13
42	All Tier 4	3.50	10.13	10.13
43				
44	* Summer Months (May, June, July, August, September)			
45	Winter Months (October, November, December, January, February, March, April)			
46				
47				
48				
49				
50				
51				
52				
53				
54				

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

5/8 Inch Residential - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 1a
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 18.45	\$ 19.28	\$ 0.83	4.50%
1,000	21.85	22.78	0.93	4.27%
2,000	25.25	26.28	1.03	4.10%
3,000	28.65	32.41	3.76	13.13%
4,000	32.05	38.54	6.49	20.25%
5,000	38.00	44.67	6.67	17.55%
6,000	43.95	50.80	6.85	15.58%
7,000	49.90	56.93	7.03	14.08%
8,000	55.85	63.06	7.21	12.90%
9,000	61.80	73.18	11.38	18.42%
10,000	67.75	83.31	15.56	22.97%
11,000	73.70	93.44	19.74	26.79%
12,000	79.65	103.57	23.92	30.03%
13,000	85.60	113.70	28.10	32.82%
14,000	91.55	123.83	32.28	35.26%
15,000	97.50	133.95	36.45	37.39%
16,000	103.45	144.08	40.63	39.28%
17,000	109.40	154.21	44.81	40.96%
18,000	115.35	164.34	48.99	42.47%
19,000	121.30	174.47	53.17	43.83%
20,000	127.25	184.60	57.35	45.07%
25,000	157.00	235.24	78.24	49.83%
30,000	186.75	285.88	99.13	53.08%
35,000	216.50	336.52	120.02	55.44%
40,000	246.25	387.17	140.92	57.23%
45,000	276.00	437.81	161.81	58.63%
50,000	305.75	488.45	182.70	59.76%
60,000	365.25	589.74	224.49	61.46%
70,000	424.75	691.02	266.27	62.69%
80,000	484.25	792.31	308.06	63.62%
90,000	543.75	893.59	349.84	64.34%
100,000	603.25	994.88	391.63	64.92%

Present Rates:

Monthly Minimum:	\$ 18.45	\$ 18.45
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 19.28	19.28025
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 3.50	\$ 3.50
Up to 8,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

5/8 Inch Residential - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 1b
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 18.45	\$ 19.28	\$ 0.83	4.50%
1,000	21.85	22.78	0.93	4.27%
2,000	25.25	26.28	1.03	4.10%
3,000	28.65	32.41	3.76	13.13%
4,000	32.05	38.54	6.49	20.25%
5,000	38.00	44.67	6.67	17.55%
6,000	43.95	50.80	6.85	15.58%
7,000	49.90	56.93	7.03	14.08%
8,000	55.85	63.06	7.21	12.90%
9,000	61.80	73.18	11.38	18.42%
10,000	67.75	83.31	15.56	22.97%
11,000	73.70	93.44	19.74	26.79%
12,000	79.65	103.57	23.92	30.03%
13,000	85.60	113.70	28.10	32.82%
14,000	91.55	123.83	32.28	35.26%
15,000	97.50	133.95	36.45	37.39%
16,000	103.45	144.08	40.63	39.28%
17,000	109.40	154.21	44.81	40.96%
18,000	115.35	164.34	48.99	42.47%
19,000	121.30	174.47	53.17	43.83%
20,000	127.25	184.60	57.35	45.07%
25,000	157.00	235.24	78.24	49.83%
30,000	186.75	285.88	99.13	53.08%
35,000	216.50	336.52	120.02	55.44%
40,000	246.25	387.17	140.92	57.23%
45,000	276.00	437.81	161.81	58.63%
50,000	305.75	488.45	182.70	59.76%
60,000	365.25	589.74	224.49	61.46%
70,000	424.75	691.02	266.27	62.69%
80,000	484.25	792.31	308.06	63.62%
90,000	543.75	893.59	349.84	64.34%
####	603.25	994.88	391.63	64.92%

Present Rates:

Monthly Minimum:	\$ 18.45	\$ 18.45
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 19.28	\$ 19.28
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 3.50	\$ 3.50
Up to 8,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

5/8 Inch Residential - 14B

Exhibit
 Rejoinder Schedule H-4
 Page 2a
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 20.35	\$ 19.28	\$ (1.07)	-5.26%
1,000	23.85	22.78	(1.07)	-4.48%
2,000	27.35	26.28	(1.07)	-3.90%
3,000	30.85	32.41	1.56	5.07%
4,000	34.35	38.54	4.19	12.20%
5,000	37.85	44.67	6.82	18.02%
6,000	41.35	50.80	9.45	22.85%
7,000	44.85	56.93	12.08	26.93%
8,000	48.35	63.06	14.71	30.41%
9,000	51.85	73.18	21.33	41.15%
10,000	55.35	83.31	27.96	50.52%
11,000	58.85	93.44	34.59	58.78%
12,000	62.35	103.57	41.22	66.11%
13,000	65.85	113.70	47.85	72.66%
14,000	69.35	123.83	54.48	78.55%
15,000	72.85	133.95	61.10	83.88%
16,000	76.35	144.08	67.73	88.71%
17,000	79.85	154.21	74.36	93.13%
18,000	83.35	164.34	80.99	97.17%
19,000	86.85	174.47	87.62	100.89%
20,000	90.35	184.60	94.25	104.31%
25,000	107.85	235.24	127.39	118.12%
30,000	125.35	285.88	160.53	128.07%
35,000	142.85	336.52	193.67	135.58%
40,000	160.35	387.17	226.82	141.45%
45,000	177.85	437.81	259.96	146.17%
50,000	195.35	488.45	293.10	150.04%
60,000	230.35	589.74	359.39	156.02%
70,000	265.35	691.02	425.67	160.42%
80,000	300.35	792.31	491.96	163.79%
90,000	335.35	893.59	558.24	166.47%
100,000	370.35	994.88	624.53	168.63%

Present Rates:

Monthly Minimum:	\$ 20.35	\$ 20.35
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Over 1,000,000,000	\$ 3.50	\$ 3.50

Proposed Rates:

Monthly Minimum:	\$ 19.28	19.28025
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 3.50	\$ 3.50
Up to 8,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

5/8 Inch Residential - 14B

Exhibit
 Rejoinder Schedule H-4
 Page 2b
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 20.35	\$ 19.28	\$ (1.07)	-5.26%
1,000	23.85	22.78	(1.07)	-4.48%
2,000	27.35	26.28	(1.07)	-3.90%
3,000	30.85	32.41	1.56	5.07%
4,000	34.35	38.54	4.19	12.20%
5,000	37.85	44.67	6.82	18.02%
6,000	41.35	50.80	9.45	22.85%
7,000	44.85	56.93	12.08	26.93%
8,000	48.35	63.06	14.71	30.41%
9,000	51.85	73.18	21.33	41.15%
10,000	55.35	83.31	27.96	50.52%
11,000	58.85	93.44	34.59	58.78%
12,000	62.35	103.57	41.22	66.11%
13,000	65.85	113.70	47.85	72.66%
14,000	69.35	123.83	54.48	78.55%
15,000	72.85	133.95	61.10	83.88%
16,000	76.35	144.08	67.73	88.71%
17,000	79.85	154.21	74.36	93.13%
18,000	83.35	164.34	80.99	97.17%
19,000	86.85	174.47	87.62	100.89%
20,000	90.35	184.60	94.25	104.31%
25,000	107.85	235.24	127.39	118.12%
30,000	125.35	285.88	160.53	128.07%
35,000	142.85	336.52	193.67	135.58%
40,000	160.35	387.17	226.82	141.45%
45,000	177.85	437.81	259.96	146.17%
50,000	195.35	488.45	293.10	150.04%
60,000	230.35	589.74	359.39	156.02%
70,000	265.35	691.02	425.67	160.42%
80,000	300.35	792.31	491.96	163.79%
90,000	335.35	893.59	558.24	166.47%
100,000	370.35	994.88	624.53	168.63%

Present Rates:

Monthly Minimum:	\$ 20.35	\$ 20.35
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Over 1,000,000,000	\$ 3.50	\$ 3.50

Proposed Rates:

Monthly Minimum:	\$ 19.28	\$ 19.28
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 3.50	\$ 3.50
Up to 8,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

3/4 Inch Residential - 14B

Exhibit
 Rejoinder Schedule H-4
 Page 3a
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 21.22	\$ 28.92	\$ 7.70	36.29%
1,000	24.72	32.42	7.70	31.16%
2,000	28.22	35.92	7.70	27.30%
3,000	31.72	42.05	10.33	32.58%
4,000	35.22	48.18	12.96	36.80%
5,000	38.72	54.31	15.59	40.26%
6,000	42.22	60.44	18.22	43.15%
7,000	45.72	66.57	20.85	45.60%
8,000	49.22	72.70	23.48	47.69%
9,000	52.72	82.82	30.10	57.10%
10,000	56.22	92.95	36.73	65.34%
11,000	59.72	103.08	43.36	72.61%
12,000	63.22	113.21	49.99	79.07%
13,000	66.72	123.34	56.62	84.86%
14,000	70.22	133.47	63.25	90.07%
15,000	73.72	143.59	69.87	94.78%
16,000	77.22	153.72	76.50	99.07%
17,000	80.72	163.85	83.13	102.99%
18,000	84.22	173.98	89.76	106.58%
19,000	87.72	184.11	96.39	109.88%
20,000	91.22	194.24	103.02	112.93%
25,000	108.72	244.88	136.16	125.24%
30,000	126.22	295.52	169.30	134.13%
35,000	143.72	346.16	202.44	140.86%
40,000	161.22	396.81	235.59	146.13%
45,000	178.72	447.45	268.73	150.36%
50,000	196.22	498.09	301.87	153.84%
60,000	231.22	599.38	368.16	159.22%
70,000	266.22	700.66	434.44	163.19%
80,000	301.22	801.95	500.73	166.23%
90,000	336.22	903.23	567.01	168.64%
100,000	371.22	1,004.52	633.30	170.60%

Present Rates:

Monthly Minimum:	\$ 21.22	\$ 21.22
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Over 1,000,000,000	\$ 3.50	\$ 3.50

Proposed Rates:

Monthly Minimum:	\$ 28.92	\$ 28.92
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 3.50	\$ 3.50
Up to 8,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

3/4 Inch Residential - 14B

Exhibit
 Rejoinder Schedule H-4
 Page 3b
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 21.22	\$ 28.92	\$ 7.70	36.29%
1,000	24.72	32.42	\$ 7.70	31.16%
2,000	28.22	35.92	\$ 7.70	27.30%
3,000	31.72	42.05	\$ 10.33	32.58%
4,000	35.22	48.18	\$ 12.96	36.80%
5,000	38.72	54.31	\$ 15.59	40.26%
6,000	42.22	60.44	\$ 18.22	43.15%
7,000	45.72	66.57	\$ 20.85	45.60%
8,000	49.22	72.70	\$ 23.48	47.69%
9,000	52.72	82.82	\$ 30.10	57.10%
10,000	56.22	92.95	\$ 36.73	65.34%
11,000	59.72	103.08	\$ 43.36	72.61%
12,000	63.22	113.21	\$ 49.99	79.07%
13,000	66.72	123.34	\$ 56.62	84.86%
14,000	70.22	133.47	\$ 63.25	90.07%
15,000	73.72	143.59	\$ 69.87	94.78%
16,000	77.22	153.72	\$ 76.50	99.07%
17,000	80.72	163.85	\$ 83.13	102.99%
18,000	84.22	173.98	\$ 89.76	106.58%
19,000	87.72	184.11	\$ 96.39	109.88%
20,000	91.22	194.24	\$ 103.02	112.93%
25,000	108.72	244.88	\$ 136.16	125.24%
30,000	126.22	295.52	\$ 169.30	134.13%
35,000	143.72	346.16	\$ 202.44	140.86%
40,000	161.22	396.81	\$ 235.59	146.13%
45,000	178.72	447.45	\$ 268.73	150.36%
50,000	196.22	498.09	\$ 301.87	153.84%
60,000	231.22	599.38	\$ 368.16	159.22%
70,000	266.22	700.66	\$ 434.44	163.19%
80,000	301.22	801.95	\$ 500.73	166.23%
90,000	336.22	903.23	\$ 567.01	168.64%
100,000	371.22	1,004.52	\$ 633.30	170.60%

Present Rates:

Monthly Minimum:	\$ 21.22	\$ 21.22
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Up to 999,999,999	\$ 3.50	\$ 3.50
Over 1,000,000,000	\$ 3.50	\$ 3.50

Proposed Rates:

Monthly Minimum:	\$ 28.92	\$ 28.92
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 3.50	\$ 3.50
Up to 8,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 24.54	\$ 48.20	\$ 23.66	96.42%
1,000	27.94	51.70	23.76	85.05%
2,000	31.34	55.20	23.86	76.15%
3,000	34.74	58.71	23.97	68.99%
4,000	38.14	62.21	24.07	63.11%
5,000	44.09	65.71	21.62	49.04%
6,000	50.04	69.21	19.17	38.31%
7,000	55.99	72.71	16.72	29.87%
8,000	61.94	76.22	14.28	23.05%
9,000	67.89	79.72	11.83	17.42%
10,000	73.84	83.22	9.38	12.70%
11,000	79.79	89.35	9.56	11.98%
12,000	85.74	95.48	9.74	11.36%
13,000	91.69	101.61	9.92	10.81%
14,000	97.64	107.73	10.09	10.34%
15,000	103.59	113.86	10.27	9.92%
16,000	109.54	119.99	10.45	9.54%
17,000	115.49	126.12	10.63	9.20%
18,000	121.44	132.25	10.81	8.90%
19,000	127.39	138.38	10.99	8.62%
20,000	133.34	144.51	11.17	8.37%
25,000	163.09	175.15	12.06	7.39%
30,000	192.84	225.79	32.95	17.09%
35,000	222.59	276.43	53.84	24.19%
40,000	252.34	327.08	74.74	29.62%
45,000	282.09	377.72	95.63	33.90%
50,000	311.84	428.36	116.52	37.37%
60,000	371.34	529.65	158.31	42.63%
70,000	430.84	630.93	200.09	46.44%
80,000	490.34	732.22	241.88	49.33%
90,000	549.84	833.50	283.66	51.59%
100,000	609.34	934.79	325.45	53.41%

Present Rates:

Monthly Minimum:	\$ 24.54	\$ 24.54
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 48.20	\$ 48.20
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 3.50	\$ 3.50
Up to 25,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

1 Inch Residential - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 4b
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 24.54	\$ 48.20	\$ 23.66	96.42%
1,000	27.94	51.70	23.76	85.05%
2,000	31.34	55.20	23.86	76.15%
3,000	34.74	58.71	23.97	68.99%
4,000	38.14	62.21	24.07	63.11%
5,000	44.09	65.71	21.62	49.04%
6,000	50.04	69.21	19.17	38.31%
7,000	55.99	72.71	16.72	29.87%
8,000	61.94	76.22	14.28	23.05%
9,000	67.89	79.72	11.83	17.42%
10,000	73.84	83.22	9.38	12.70%
11,000	79.79	89.35	9.56	11.98%
12,000	85.74	95.48	9.74	11.36%
13,000	91.69	101.61	9.92	10.81%
14,000	97.64	107.73	10.09	10.34%
15,000	103.59	113.86	10.27	9.92%
16,000	109.54	119.99	10.45	9.54%
17,000	115.49	126.12	10.63	9.20%
18,000	121.44	132.25	10.81	8.90%
19,000	127.39	138.38	10.99	8.62%
20,000	133.34	144.51	11.17	8.37%
25,000	163.09	175.15	12.06	7.39%
30,000	192.84	225.79	32.95	17.09%
35,000	222.59	276.43	53.84	24.19%
40,000	252.34	327.08	74.74	29.62%
45,000	282.09	377.72	95.63	33.90%
50,000	311.84	428.36	116.52	37.37%
60,000	371.34	529.65	158.31	42.63%
70,000	430.84	630.93	200.09	46.44%
80,000	490.34	732.22	241.88	49.33%
90,000	549.84	833.50	283.66	51.59%
100,000	609.34	934.79	325.45	53.41%

Present Rates:

Monthly Minimum:	\$ 24.54	\$ 24.54
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 48.20	\$ 48.20
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 3.50	\$ 3.50
Up to 25,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

2 Inch Residential - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 5a
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 64.58	\$ 154.24	\$ 89.66	138.84%
1,000	67.98	157.74	89.76	132.04%
2,000	71.38	161.25	89.87	125.90%
3,000	74.78	164.75	89.97	120.31%
4,000	78.18	168.25	90.07	115.21%
5,000	84.13	171.75	87.62	104.15%
6,000	90.08	175.25	85.17	94.55%
7,000	96.03	178.76	82.73	86.15%
8,000	101.98	182.26	80.28	78.72%
9,000	107.93	185.76	77.83	72.11%
10,000	113.88	189.26	75.38	66.19%
11,000	119.83	195.39	75.56	63.06%
12,000	125.78	201.52	75.74	60.22%
13,000	131.73	207.65	75.92	57.63%
14,000	137.68	213.78	76.10	55.27%
15,000	143.63	219.90	76.27	53.10%
16,000	149.58	226.03	76.45	51.11%
17,000	155.53	232.16	76.63	49.27%
18,000	161.48	238.29	76.81	47.57%
19,000	167.43	244.42	76.99	45.98%
20,000	173.38	250.55	77.17	44.51%
25,000	203.13	281.19	78.06	38.43%
30,000	232.88	331.83	98.95	42.49%
35,000	262.63	382.47	119.84	45.63%
40,000	292.38	433.12	140.74	48.13%
45,000	322.13	483.76	161.63	50.18%
50,000	351.88	534.40	182.52	51.87%
60,000	411.38	635.69	224.31	54.53%
70,000	470.88	736.97	266.09	56.51%
80,000	530.38	838.26	307.88	58.05%
90,000	589.88	939.54	349.66	59.28%
100,000	649.38	1,040.83	391.45	60.28%

Present Rates:

Monthly Minimum:	\$ 64.58	\$ 64.58
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 154.24	\$ 154.24
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 3.50	\$ 3.50
Up to 25,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

2 Inch Residential - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 5b
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 64.58	\$ 154.24	\$ 89.66	138.84%
1,000	67.98	157.74	89.76	132.04%
2,000	71.38	161.25	89.87	125.90%
3,000	74.78	164.75	89.97	120.31%
4,000	78.18	168.25	90.07	115.21%
5,000	84.13	171.75	87.62	104.15%
6,000	90.08	175.25	85.17	94.55%
7,000	96.03	178.76	82.73	86.15%
8,000	101.98	182.26	80.28	78.72%
9,000	107.93	185.76	77.83	72.11%
10,000	113.88	189.26	75.38	66.19%
11,000	119.83	195.39	75.56	63.06%
12,000	125.78	201.52	75.74	60.22%
13,000	131.73	207.65	75.92	57.63%
14,000	137.68	213.78	76.10	55.27%
15,000	143.63	219.90	76.27	53.10%
16,000	149.58	226.03	76.45	51.11%
17,000	155.53	232.16	76.63	49.27%
18,000	161.48	238.29	76.81	47.57%
19,000	167.43	244.42	76.99	45.98%
20,000	173.38	250.55	77.17	44.51%
25,000	203.13	281.19	78.06	38.43%
30,000	232.88	331.83	98.95	42.49%
35,000	262.63	382.47	119.84	45.63%
40,000	292.38	433.12	140.74	48.13%
45,000	322.13	483.76	161.63	50.18%
50,000	351.88	534.40	182.52	51.87%
60,000	411.38	635.69	224.31	54.53%
70,000	470.88	736.97	266.09	56.51%
80,000	530.38	838.26	307.88	58.05%
90,000	589.88	939.54	349.66	59.28%
100,000	649.38	1,040.83	391.45	60.28%

Present Rates:

Monthly Minimum:	\$ 64.58	\$ 64.58
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 154.24	\$ 154.24
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 3.50	\$ 3.50
Up to 25,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 18.45	\$ 19.28	\$ 0.83	4.50%
1,000	21.85	22.78	0.93	4.27%
2,000	25.25	26.28	1.03	4.10%
3,000	28.65	32.41	3.76	13.13%
4,000	32.05	38.54	6.49	20.25%
5,000	38.00	44.67	6.67	17.55%
6,000	43.95	50.80	6.85	15.58%
7,000	49.90	56.93	7.03	14.08%
8,000	55.85	63.06	7.21	12.90%
9,000	61.80	73.18	11.38	18.42%
10,000	67.75	83.31	15.56	22.97%
11,000	73.70	93.44	19.74	26.79%
12,000	79.65	103.57	23.92	30.03%
13,000	85.60	113.70	28.10	32.82%
14,000	91.55	123.83	32.28	35.26%
15,000	97.50	133.95	36.45	37.39%
16,000	103.45	144.08	40.63	39.28%
17,000	109.40	154.21	44.81	40.96%
18,000	115.35	164.34	48.99	42.47%
19,000	121.30	174.47	53.17	43.83%
20,000	127.25	184.60	57.35	45.07%
25,000	157.00	235.24	78.24	49.83%
30,000	186.75	285.88	99.13	53.08%
35,000	216.50	336.52	120.02	55.44%
40,000	246.25	387.17	140.92	57.23%
45,000	276.00	437.81	161.81	58.63%
50,000	305.75	488.45	182.70	59.76%
60,000	365.25	589.74	224.49	61.46%
70,000	424.75	691.02	266.27	62.69%
80,000	484.25	792.31	308.06	63.62%
90,000	543.75	893.59	349.84	64.34%
100,000	603.25	994.88	391.63	64.92%

Present Rates:

Monthly Minimum:	\$ 18.45	\$ 18.45
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 19.28	\$ 19.28
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 3.50	\$ 3.50
Up to 8,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

5/8 Inch Commercial - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 6b
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 18.45	\$ 19.28	\$ 0.83	4.50%
1,000	21.85	22.78	0.93	4.27%
2,000	25.25	26.28	1.03	4.10%
3,000	28.65	32.41	3.76	13.13%
4,000	32.05	38.54	6.49	20.25%
5,000	38.00	44.67	6.67	17.55%
6,000	43.95	50.80	6.85	15.58%
7,000	49.90	56.93	7.03	14.08%
8,000	55.85	63.06	7.21	12.90%
9,000	61.80	73.18	11.38	18.42%
10,000	67.75	83.31	15.56	22.97%
11,000	73.70	93.44	19.74	26.79%
12,000	79.65	103.57	23.92	30.03%
13,000	85.60	113.70	28.10	32.82%
14,000	91.55	123.83	32.28	35.26%
15,000	97.50	133.95	36.45	37.39%
16,000	103.45	144.08	40.63	39.28%
17,000	109.40	154.21	44.81	40.96%
18,000	115.35	164.34	48.99	42.47%
19,000	121.30	174.47	53.17	43.83%
20,000	127.25	184.60	57.35	45.07%
25,000	157.00	235.24	78.24	49.83%
30,000	186.75	285.88	99.13	53.08%
35,000	216.50	336.52	120.02	55.44%
40,000	246.25	387.17	140.92	57.23%
45,000	276.00	437.81	161.81	58.63%
50,000	305.75	488.45	182.70	59.76%
60,000	365.25	589.74	224.49	61.46%
70,000	424.75	691.02	266.27	62.69%
80,000	484.25	792.31	308.06	63.62%
90,000	543.75	893.59	349.84	64.34%
100,000	603.25	994.88	391.63	64.92%

Present Rates:

Monthly Minimum:	\$ 18.45	\$ 18.45
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 19.28	\$ 19.28
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 2,000	\$ 3.50	\$ 3.50
Up to 8,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

1 Inch Commercial - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 7a
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 24.54	\$ 48.20	\$ 23.66	96.42%
1,000	27.94	51.70	23.76	85.05%
2,000	31.34	55.20	23.86	76.15%
3,000	34.74	58.71	23.97	68.99%
4,000	38.14	62.21	24.07	63.11%
5,000	44.09	65.71	21.62	49.04%
6,000	50.04	69.21	19.17	38.31%
7,000	55.99	72.71	16.72	29.87%
8,000	61.94	76.22	14.28	23.05%
9,000	67.89	79.72	11.83	17.42%
10,000	73.84	83.22	9.38	12.70%
11,000	79.79	89.35	9.56	11.98%
12,000	85.74	95.48	9.74	11.36%
13,000	91.69	101.61	9.92	10.81%
14,000	97.64	107.73	10.09	10.34%
15,000	103.59	113.86	10.27	9.92%
16,000	109.54	119.99	10.45	9.54%
17,000	115.49	126.12	10.63	9.20%
18,000	121.44	132.25	10.81	8.90%
19,000	127.39	138.38	10.99	8.62%
20,000	133.34	144.51	11.17	8.37%
25,000	163.09	175.15	12.06	7.39%
30,000	192.84	225.79	32.95	17.09%
35,000	222.59	276.43	53.84	24.19%
40,000	252.34	327.08	74.74	29.62%
45,000	282.09	377.72	95.63	33.90%
50,000	311.84	428.36	116.52	37.37%
60,000	371.34	529.65	158.31	42.63%
70,000	430.84	630.93	200.09	46.44%
80,000	490.34	732.22	241.88	49.33%
90,000	549.84	833.50	283.66	51.59%
100,000	609.34	934.79	325.45	53.41%

Present Rates:

Monthly Minimum:	\$ 24.54	\$ 24.54
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 48.20	\$ 48.20
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 3.50	\$ 3.50
Up to 25,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

1 Inch Commercial - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 7b
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 24.54	\$ 48.20	\$ 23.66	96.42%
1,000	27.94	51.70	23.76	85.05%
2,000	31.34	55.20	23.86	76.15%
3,000	34.74	58.71	23.97	68.99%
4,000	38.14	62.21	24.07	63.11%
5,000	44.09	65.71	21.62	49.04%
6,000	50.04	69.21	19.17	38.31%
7,000	55.99	72.71	16.72	29.87%
8,000	61.94	76.22	14.28	23.05%
9,000	67.89	79.72	11.83	17.42%
10,000	73.84	83.22	9.38	12.70%
11,000	79.79	89.35	9.56	11.98%
12,000	85.74	95.48	9.74	11.36%
13,000	91.69	101.61	9.92	10.81%
14,000	97.64	107.73	10.09	10.34%
15,000	103.59	113.86	10.27	9.92%
16,000	109.54	119.99	10.45	9.54%
17,000	115.49	126.12	10.63	9.20%
18,000	121.44	132.25	10.81	8.90%
19,000	127.39	138.38	10.99	8.62%
20,000	133.34	144.51	11.17	8.37%
25,000	163.09	175.15	12.06	7.39%
30,000	192.84	225.79	32.95	17.09%
35,000	222.59	276.43	53.84	24.19%
40,000	252.34	327.08	74.74	29.62%
45,000	282.09	377.72	95.63	33.90%
50,000	311.84	428.36	116.52	37.37%
60,000	371.34	529.65	158.31	42.63%
70,000	430.84	630.93	200.09	46.44%
80,000	490.34	732.22	241.88	49.33%
90,000	549.84	833.50	283.66	51.59%
100,000	609.34	934.79	325.45	53.41%

Present Rates:

Monthly Minimum:	\$ 24.54	\$ 24.54
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 48.20	\$ 48.20
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 3.50	\$ 3.50
Up to 25,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Summer Present and Proposed

2 Inch Commercial - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 8a
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 64.58	\$ 154.24	\$ 89.66	138.84%
1,000	67.98	157.74	89.76	132.04%
2,000	71.38	161.25	89.87	125.90%
3,000	74.78	164.75	89.97	120.31%
4,000	78.18	168.25	90.07	115.21%
5,000	84.13	171.75	87.62	104.15%
6,000	90.08	175.25	85.17	94.55%
7,000	96.03	178.76	82.73	86.15%
8,000	101.98	182.26	80.28	78.72%
9,000	107.93	185.76	77.83	72.11%
10,000	113.88	189.26	75.38	66.19%
11,000	119.83	195.39	75.56	63.06%
12,000	125.78	201.52	75.74	60.22%
13,000	131.73	207.65	75.92	57.63%
14,000	137.68	213.78	76.10	55.27%
15,000	143.63	219.90	76.27	53.10%
16,000	149.58	226.03	76.45	51.11%
17,000	155.53	232.16	76.63	49.27%
18,000	161.48	238.29	76.81	47.57%
19,000	167.43	244.42	76.99	45.98%
20,000	173.38	250.55	77.17	44.51%
25,000	203.13	281.19	78.06	38.43%
30,000	232.88	331.83	98.95	42.49%
35,000	262.63	382.47	119.84	45.63%
40,000	292.38	433.12	140.74	48.13%
45,000	322.13	483.76	161.63	50.18%
50,000	351.88	534.40	182.52	51.87%
60,000	411.38	635.69	224.31	54.53%
70,000	470.88	736.97	266.09	56.51%
80,000	530.38	838.26	307.88	58.05%
90,000	589.88	939.54	349.66	59.28%
100,000	649.38	1,040.83	391.45	60.28%

Present Rates:

Monthly Minimum:	\$ 64.58	\$ 64.58
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 154.24	\$ 154.24
Gallons in Minimum	-	
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 3.50	\$ 3.50
Up to 25,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

Pine Water Company
 Bill Comparison
 Customer Classification
 Winter Present and Proposed

2 Inch Commercial - 14A

Exhibit
 Rejoinder Schedule H-4
 Page 8b
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 64.58	\$ 154.24	\$ 89.66	138.84%
1,000	67.98	157.74	89.76	132.04%
2,000	71.38	161.25	89.87	125.90%
3,000	74.78	164.75	89.97	120.31%
4,000	78.18	168.25	90.07	115.21%
5,000	84.13	171.75	87.62	104.15%
6,000	90.08	175.25	85.17	94.55%
7,000	96.03	178.76	82.73	86.15%
8,000	101.98	182.26	80.28	78.72%
9,000	107.93	185.76	77.83	72.11%
10,000	113.88	189.26	75.38	66.19%
11,000	119.83	195.39	75.56	63.06%
12,000	125.78	201.52	75.74	60.22%
13,000	131.73	207.65	75.92	57.63%
14,000	137.68	213.78	76.10	55.27%
15,000	143.63	219.90	76.27	53.10%
16,000	149.58	226.03	76.45	51.11%
17,000	155.53	232.16	76.63	49.27%
18,000	161.48	238.29	76.81	47.57%
19,000	167.43	244.42	76.99	45.98%
20,000	173.38	250.55	77.17	44.51%
25,000	203.13	281.19	78.06	38.43%
30,000	232.88	331.83	98.95	42.49%
35,000	262.63	382.47	119.84	45.63%
40,000	292.38	433.12	140.74	48.13%
45,000	322.13	483.76	161.63	50.18%
50,000	351.88	534.40	182.52	51.87%
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70,000	470.88	736.97	266.09	56.51%
80,000	530.38	838.26	307.88	58.05%
90,000	589.88	939.54	349.66	59.28%
100,000	649.38	1,040.83	391.45	60.28%

Present Rates:

Monthly Minimum:	\$ 64.58	\$ 64.58
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 4,000	\$ 3.40	\$ 3.40
Up to 999,999,999	\$ 5.95	\$ 5.95
Up to 999,999,999	\$ 5.95	\$ 5.95
Over 1,000,000,000	\$ 5.95	\$ 5.95

Proposed Rates:

Monthly Minimum:	\$ 154.24	\$ 154.24
Gallons in Minimum	-	-
Charge Per 1,000 Gallons	<u>Summer</u>	<u>Winter</u>
Up to 10,000	\$ 3.50	\$ 3.50
Up to 25,000	\$ 6.13	\$ 6.13
Up to 999,999,999	\$ 10.13	\$ 10.13
Over 1,000,000,000	\$ 10.13	\$ 10.13

EXHIBIT

3

1 entities to verify the points in question. Future rate case legal expenses will be affected if the costs of
2 making these changes are permitted to be included in the allowable test year expenses by the
3 Commission.

4
5 #4.1-2 Improper Payment of Property Taxes for Inter-affiliate Firms: PWCo's improper payment of
6 property taxes for SWCo over the years of 2000-2002 (see Jones DT 8) has been admitted by PWCo at
7 Bourassa Rt.21 21-26. Bourassa's excuse for these booking errors being "caused by the fact that the
8 property tax bills are addressed to Brooke Utilities and not specifically addressed to Pine Water or to
9 Strawberry Water" is hogwash, with each bill clearly indicating which entity should pay (see Exhibit XX
10 Jones Surrebuttal). Had this improper activity not been caught by the District, PWCo would have test
11 year expenses that would allow a \$16,617 larger than justified recovery of expenses through rates, and if
12 a 10% return on expenses (as recommended by Fernandez) was allowed by the Commission, an extra
13 \$1,661 profit would have been allowed, for a total excess recovery from ratepayers of \$18,278.

14
15 #4.1-3 Improper Accrued Property Taxes: The balance sheet item of accrued property taxes on 12-31-02
16 appears way high at \$29,001 on 12-31-02 test year for PWCo. This is explained by Bourassa at
17 Interrogatory 34 as an error related to PWCo paying property tax bills that really belong to SWCo. If left
18 standing, this excess accrual would allow the rate base to be excessively high (by the amount of the
19 error), allowing for unjustified recovery of return of return on assets employed.

20
21 #4.1-4 Improper Recording of Repair and Maintenance Expenses: PWCo's improper recording of repair
22 and maintenance expenses (see Jones DT 8-9) has been admitted by Bourassa at Rt. 26 22-26 and 27 1-
23 7. Had this improper activity not be caught by the District, PWCo would have been able to maintain the
24 \$59,423 expense claimed in the 2002 test year, while -\$0- was claimed for 2001, \$11,261 for 2000, and -
25 \$0- for 1999. It is apparent PWCo has poor control over their accounting system or is deliberately
26 moving expenses from company to company or from accounting category to accounting category. The
27 accounting for repair and maintenance expenses is a good example of the allegations by the District that
28 the accounting system, financial records, and financial statements are inaccurate, misleading, and
29 basically out of control. Bourassa claims in Interrogatory 30 that the missing amounts for 1999 and

EXHIBIT

4

1 entities to verify the points in question. Future rate case legal expenses will be affected if the costs of
2 making these changes are permitted to be included in the allowable test year expenses by the
3 Commission.

4
5 #4.1-2 Improper Payment of Property Taxes for Inter-affiliate Firms: PWCo's improper payment of
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8 property tax bills are addressed to Brooke Utilities and not specifically addressed to Pine Water or to
9 Strawberry Water" is hogwash, with each bill clearly indicating which entity should pay (see Exhibit XX
10 Jones Surrebuttal). Had this improper activity not been caught by the District, PWCo would have test
11 year expenses that would allow a \$16,617 larger than justified recovery of expenses through rates, and if
12 a 10% return on expenses (as recommended by Fernandez) was allowed by the Commission, an extra
13 \$1,661 profit would have been allowed, for a total excess recovery from ratepayers of \$18,278.

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24 \$59,423 expense claimed in the 2002 test year, while -\$0- was claimed for 2001, \$11,261 for 2000, and -
25 \$0- for 1999. It is apparent PWCo has poor control over their accounting system or is deliberately
26 moving expenses from company to company or from accounting category to accounting category. The
27 accounting for repair and maintenance expenses is a good example of the allegations by the District that
28 the accounting system, financial records, and financial statements are inaccurate, misleading, and
29 basically out of control. Bourassa claims in Interrogatory 30 that the missing amounts for 1999 and

EXHIBIT

5

LAW OFFICE OF
JOHN G. GLIEGE

P.O. Box 1388
Flagstaff, Arizona 86002-1388

Phone: 928 380 0159

jgliege@earthlink.net

February 4, 2004

Jay L. Shapiro
Fennemore Craig
3003 North Central Ave. Ste 2600
Phoenix, AZ 85012-2913

JAY SHAPIRO

FEB 06 2004

ACTION _____

Re: Jones Invoices

Dear Mr. Shapiro:

Enclosed please find copies of Harry Jones invoices to the District.

Pursuant to your discovery request, the lawyer fees alone for the district, which have been paid as of this date, are: \$29,340.

Sincerely,

LAW OFFICE OF JOHN G. GLIEGE



John G. Gliege

HDJ Management

HC8 Box 363
Payson, AZ 85541
(928) 474-2876
Cell (928) 595-1111
FAX (928) 474-2876

***** INVOICE *****

Terms: Net 10 days

To: John Nelson, Administrator, Pine/Strawberry Water Improvement District

From: Harry D. Jones, HDJ Management

Date: 10-31-03

For management services rendered 10-1-03 thru 10-31-03:

10-1-03	Meet with John Nelson and leave suggested letter to former board members.	.6 hours
10-2-03	Telephone call with Loren Peterson with his suggestions about possible intervention in rate hearing and his ideas of community members to bring into a potential citizens communications group.	1.8
10-3-03	Call from John N. requesting I call Jon Breninger and to review Loren's comments. Go to Roundup newspaper office to review letter to editor from three weeks earlier by Estess. Call John B., make introduction, and set appointment for Sunday, 10-5. Call from Loren Peterson about intervention deadline dates.	1.0
10-4-03	Prepare potential survey questions and file and organize documents.	2.2
10-5-03	Prepared agenda to discuss with John Breninger. Met with John B. to discuss his feelings and review his agenda for transition to Bd. of Supervisors. Reviewed records he will prepare to deliver next day.	6.9
10-6-03	Review CAP water rights of Pine Water Co. (none for Strawberry) with CAP offices. Go to bank to arrange to get new signatures on bank account. Lunch with Marty to update him on progress and to give him bank signature card to go to John N. Go to Pine and pick up records, unpaid bills, checks, keys, etc. and review them with John B.	3.8
10-7-03	To Pine to Post Office, storage building, and review and pick up some records to study. Called Mortensen and Goode about records and minutes of last board meeting. Made quick review of	4.6

	records picked up, sorted mail and bills, called John Liege about intervention, prepared for next day meeting with John N.	
10-8-03	Met with John N. to update on my activities and to review legal briefs, allocations of CAP water, etc. Filed documents, read reports, and began preparation for mailing of reports to citizens. Coordinated with Jo Johnson to handle M-M reports and CD-ROMs to be picked up by citizens.	5.8
10-9-03	Met with John N. to coordinate payment of bills and to arrange to have E-mail sent to John Liege. Prepared part of documents for John G., arranged notebooks, and prepared notes for Nancy to be able to do the telephone calls and mailings of the M-M reports and CD-ROMs.	2.7
10-10-03	Prepare copies of rate hearing documents and status for John G. Go to copy store, Jo Johnson's office, Payson Packaging, and Post Office.	1.3
10-11-03	Contact Pine library and John B. Set up mailing and call procedures for distribution of reports and CDs. Check Web sites for County link and PSWID links for internet access to report. Further review rate hearing application to save time of John G. (especially the financial sections).	5.5 Harry
10-11-03	Prepare invoice forms and mailing/pickup checklist for Jo Johnson to use. Make calls to citizens who requested reports two months ago, fill out invoices, and package items ready for pick up or mailing.	2.9 Nancy
10-12-03	Prepare to update John G. on significant details of rate hearing and procedural order of ACC. Further coordinate financial details in rate hearing application with Econ.com report. Complete M-M report review so I can discuss with Buzz Walker and Mike Ploughe when I hand deliver their copies.	6.8 Harry
10-12-03	Place calls to citizens and prepare invoices, mailings and pick up envelopes.	1.2 Nancy
10-13-03	Met with Ray Pugel and called Loren Peterson to get input for meeting with John Nelson	.6
10-14-03	Calls from Printing by George and John Gliege. To Payson P.O. and Printing by George. To Pine mailbox. To Payson Town Hall to meet with Buzz Walker. Pay bills and update mailing records.	3.7 Harry
10-14-03	Complete daily mailing preparation	.5 Nancy
10-15-03	Met John N. to pay bills and set agenda for next days meeting. To Pine to go to storage unit and mail box and pick up new bills. Prepared written agenda for 10-16 meeting with attorney. Reviewed resumes and filed paid bills. Prepared CDs for mailing.	4.6
10-16-03	Make copies of resumes for meeting. Meet with John N. and John Gliege	3.0
10-17-03	Met with Bill McKnight to deliver report and discuss his well that supplies water to Brooke system. Met with Mike Ploughe to review study and arrange meeting with John N. To Post Office.	2.5
10-18-03	Update records and arrange meeting schedule with John N. Called Breninger, resume applicants, and other interested parties and interviewed them over phone. Began drafting interrogatory questions for John G.	5.2

10-19-03	Review E-mail from Loren. Prepare questions for John G. Call Ray Pugel for his e-mail. Make committee candidate calls. Prepare memo to attorney	10.2
10-20-03	Complete balance of mailing and prepare accounts receivable list	2.1 Nancy
10-20-03	Verify final mailing results. Handle E-mail from Pugel and prepare additional questions for Gliege.	3.6 Harry
10-21-03	Lunch with Gegrumph of SRP. To John N. office and post office to deliver mailings. Call from Glenn Brown. Start preparing written testimony.	5.7
10-22-03	Telephone review of draft testimony with Peterson. And Pugel. Review of testimony with Gliege and discuss extention request. To Pine P.O. for mail To nelson and Jo Johnson to review collections and status. Update of testimony and integrate Pugel and Peterson comments. Discuss additional background with Greg of SRP.	6.2
10-23-03	To J. Nelson office to review agenda. Long call from Gliege as to processes and facts. Integrate Gliege comments into agenda. Meet with Dan Jackson and Nelson and discussed legal issues and testimony with Gliege.	4.0
10-24-03	Call from Kornrumpf to discuss data and review his explanation of M & M study. Obtain additional population info. From Nelson and discuss with Greg K.	1.0
10-25-03	Update written testimony with John. Calls with Jim Estess and Alan LaMagna.	7.9
10-26-03	Review and prepare testimony	8.5
10-27-03	Update testimony and re-arrange records. Prepare reply to Gliege and Nelson. Go to Pine to see Perry Schaal and Tom Weeks.	7.2
10-28-03	Review updates to testimony and seed to others. Calls to Jackson, Johnson, Nelson, and Gliege. Update testimony based on days conversations.	7.6
10-29-03	Print update of testimony and e-mail. Review Fed-Ex documents from Jackson. Call Gliege about the new info. To Pine for mail. Called Nelson on way to Laughlin to review status. Review exhibits and update testimony.	7.8
10-30-03	Call Gliege to review latest e-mail. To county offices to copy Exhibits. To P.O. to mail copies to Gliege. Make final adjustments to testimony.	5.6
10-31-03	To Pine P.O. to look for staff reports. See Perry Schaal at Knolls job site. Follow up at P.O. to track delivery to Gliege.	1.3

Total Hours – Nancy 6.7 @ \$20.00 = \$ 134.00

Total Hours – Harry 139.2 @ \$45.00 = 6,264.00

Total Due \$6,398.00

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***** INVOICE *****

Terms: Net 10 days

To: John Nelson, Administrator, Pine/Strawberry Water
Improvement District

From: Harry D. Jones, HDJ Management

Date: 11-30-03

For management services rendered 11-1-03 thru 11-30-03:

11-1-03	Prepare memo on advisory group. Call Gliege for strategy and to review his memo. Review ACC Staff recommendations and call John N. to review status. Call recruits and summarize backgrounds.	10.3 hours
11-2-03	Cal from Jim Estess on 10-24 meeting he is planning. Start Nancy on bank deposit and A/R preparation. Nancy works up bank deposit and prepares A/R list. Revised agenda and call more of the advisors to get resumes accurate.	7.8 Harry 1.2 Nancy
11-3-03	To County to see J. Nelson (gone). To Print by George for copies. Call from Brian Boers to confirm participation. Call from Al LaMagna confirming meeting space. Answer E-mails, make corrections to testimony and call Gliege on testimony.	3.0
11-4-03	Go to Print by George twice to deliver originals and to pick up copies. Meet with Bob Cassaro. Put together information packets for advisory group.	3.5
11-5-03	Go to Print by George for agendas. . Call advisory group to arrange delivery of handouts. See John to sign checks and for update. Met with Lynne Gardner, Jim Estess, and Gary Hezel in Pine and go to Pine P.O. to mail last 3 copies. Review Requests to Produce and our Interrogatories.	6.0
11-6-03	Call from Bill Riley. To Pine P.O. and calls to Dee Dee Stodghill. Review Interrogatories as revised by Gliege. Answer E-Mails.	3.3

11-7-03	Review E-mail from Gliege. Call from Gliege for update of status. Met with J. Nelson to discuss engagement of Ploughe and call to Gliege about discovery problems with E-mail between Nelson and Jones. To printer to pay bill and to get 20 copies of interrogatories. Pick up nametags at bank. Review Gliege E-mail and prepare name labels.	1.6
11-8-03	Go to Pine to meet with Advisory Group and go to P.O. Search files for report on water use and growth estimates. Call Hezel to review report and the meeting.	6.2
11-9-03	Update notes and files from 11-8 meeting. Send PSWID volume report to Bureau of Reclamation and SRP. Write E-mail to Gliege. Start on preparation of interrogatory answers and locate resignation letters.	1.9
11-10-03	Call from Joe Hock resigning from Advisory Bd. Call from Loren Peterson and Ray Pugel regarding meeting on Sat. and discussions they want to have with Jim Estess. Review interrogatory objections for Gliege.	5.0
11-11-03	Discuss answers to my questions about obtaining information with Gliege. Locate results of prior surveys for Loren and call and fax him. Talk to Bill Riley and send CD to him for his daughter. Find copy of Borehole study and results for use in testimony.	3.4
11-12-03	Prepare interrogatory answers. Memo to Loren Peterson. Go see Mark Furnusa to review water sales and related testimony. Call Gary Hezel for background. Find reference documents for Exhibits	6.0
11-13-03	Answer interrogatories. Discuss proposed answers and objections with Gliege. Update more answers.	6.5
11-14-03	Prepare Exhibit submittals to Gliege and update interrogatory answers. Go to printer for copy of backup documents. Meet with John Nelson at my office to discuss his answers to interrogatories and to review status. Meet with Mike Ploughe to discuss well costs	3.4
11-15-03	Copy backup Exhibits and go to P.O. to mail to Gliege. Update Exhibits and review those from J. Nelson. Answer interrogatories. Answer questions and review data from Ploughe.	10.3
11-16-03	Review E-mails, study John's documents, and review all documents for Disclosure Book. Prepare all disclosures and copy required documents.	10.8
11-17-03	Call from Loren Peterson. Call from Mark about bonding meeting and related strategy. Copy final documents for Disclosure Book and mail to Gliege. Review PSWID Demand Study and prepare for presentation to Mog. Rim Resource Group next day. Review E-mail from Dick Bond and prepare answers to Dick Bond and J. Nelson	3.6
11-18-03	Met with Tom Whitmer of ADWR to discuss status with Brook and our testimony, and need for accurate data on wells, water production, etc. Study memo from Gliege. Study results of Gliege trip to ACC, ADEQ, and ADWR and compare results with other Brooke records. Call from Gliege about above comparisons.	2.2
11-19-03	Update testimony and interrogatory answers based on new information from Gliege's trip. Lunch with Martinez for update. Calls to various well owners related to use of wells by Pine Water Co. or Brooke. Review answers to interrogatories. Discuss District	5.7

	status and well use with Brent Weeks.	
11-20-03	Call with Jim Estess about not coming to meeting he has called in Pine. Discuss results of record search of wells with Tom Whitmer of ADWR.	.4
11-21-03	Call from Gliege about hearing later in the day (needed sources of my information). Call with Gliege about hearing results. Met with Bob Gardner to try to figure out Pine/Strawberry supply memo and update on intervening.	1.3
11-22-03	Review E-mails and send messages to Gliege and Nelson. Prepare memo to Bob Gardner to have him help understand the problems with the District's Supply and Demand study and Report.	.6
11-24-03	Call from Ray Pugel. Call from Mark Reeder about strategy and meeting schedule. Call from Loren Peterson. Call to Gliege about meeting schedule.	.6
11-25-03	Review Gliege memo on Shapiro's response to interrogatories. Meet with Gliege, Nelson, Martinez, Christensen, to hold conference call with Reeder, Jackson, and bond attorney related to financing District for improvements and potential acquisitions. Reply to Shapiro data requests.	5.7
11-26-03	Discuss Estess meeting and supply/demand study with Glen Brown. Discuss possible petition to District Bd. for conversion to "Domestic" district, possible funding levels, and possible use of Web site to distributed information to citizens. Pick up mail at P.O. Discuss Estess meeting and slow pumping techniques with Bill Riley that may get more production out of current wells.	1.2
11-27-03	Review form of possible petition by citizens to Bd. if District. Respond to E-mails to Peterson and Gliege. Make suggested changes to Petition form. Review Economist. com revised forecast. Prepare suggested bullet points for flyer to Pugel.	6.9
11-28-03	Met with Casero to discuss procedures for testimony. Met with Glen Brown and Gary Hezel related to demand/supply study inaccuracies. Call to Breninger. Read background materials from Gliege. Go to Pine P.O.	5.0
11-29-03	Locate demand/supply background support materials and review why errors had occurred. Discuss problems with Hezel. Review background materials from Gliege. Restructure demand/supply study and recalculate data.	7.9
11-30-03	Read e-mails and search internet for required accounting practices for public utilities. Update responses to Gliege as to Exhibit numbers. Proofread all responses to Shapiro. Review Gliege bill. File all documents. Pay bills.	8.1

Total Hours- Nancy 1.2 @ \$20.00 = 24.00

Total Hours- Harry 138.2 @ \$45.00 = 6,219.00

Total Due \$6,243.00

HDJ Management

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***** INVOICE *****

Terms: Net 10 days

To: John Nelson, Administrator, Pine/Strawberry Water
Improvement District

From: Harry D. Jones, HDJ Management

Date: 12-31-03

For management services rendered 12-1-03 thru 12-31-03:

12-01-03	Call from Glenn Brown. To County office to see Jo Johnson, Nelson, and Martinez. Update on phone with J. Nelson. Visit Buzz Walker at Town of Payson about format of demand spreadsheet and to update him on activities, plus seek help on other possible drilling locations.	2.1 hours
12-2-03	Discussion with Peterson related to his desire to have Petition to Incur Expenses. Review demand spreadsheet and comments from Hezel about Peterson well. Pick up copies of consumer complaints from Peterson and discuss his well output and go to printer for copies. Conference call with Dan Jackson, Nelson, Reader, and Gliege to discuss financing options. Download 150 pages of rebuttal testimony and begin to review it.	6.4
12-3-02	Call to Gliege accidental E-mail to Shapiro. To printer to pick up copies. To Nelson for update and to pay bills and discuss financing options. Conference call with Mark, Mike, Nelson to discuss financing terms. To printer to get copies and pay his bill. To Loren to review rebuttal testimony. Review motions to compel on discovery and to change hearing officers.	3.1
12-4-03	Study rebuttal testimony. Call from Loren about form of petition. To East Verde Park to meet Gardner about spreadsheet and to Pine to put Dee Dee Stodghill on Advisory Board. Read E-mails and handle calls from Nelson and Peterson.	1.8
12-5-03	Review Bourassa rebuttal and fix my testimony about size of tank at Solitude Trails. Read e-mails and review final petition. Study	2.0

	ADEQ reports and compare with other testimony and write reply to Gliedge on variances.	
12-6-03	Complete memo on ADEQ reports. Go to Pine to review supply/demand study with Gary Hezel and to discuss alternatives to drilling of deep well recommended in M & M study. Meet with Breninger about demand study, status of M & M study on well design, status of Bureau of Reclamation study and his question of why it takes three years to study prior reports.	3.9
12-7-03	Review E-mails and letter to ACC Chief Counsel and Shapiro. Review rebuttal testimony and write memo to Gliedge. Call from Pugel about next days hearing. Review Hardcastle rebuttal and handle calls and reviews of documents being prepared as handouts.	13.4
12-8-03	File paperwork. Call from Jackson. Meet with Nelson and Martinez to review P/S population numbers and status of tonight s meeting. Call to Dan. Go to printer. Sort documents for duplication. Meet Gliedge, Martinez and Nelson in Strawberry and at Pine School to attend ACC hearing. Review e-mails and determine various rate schedules for Jackson.	6.2
12-9-03	Memo to Dan and Gliedge on Pine Hearing and justifications for motions to compel. Call to Ploughe. Call to Gliedge, Peterson, and Pugel about improving testimony of public to be more focused. Update inconsistencies in PWCo testimony and reasons we need 5 years of data.	7.6
12-10-03	Send reasons to compel to Gliedge. Call with Mark Reader. Mail stuff to Jackson and Gliedge. Meet with Mike Ploughe to review testimony needs. Work on P/S population projections and spreadsheet for Nelson.	5.7
12-11-03	Update P/S demand spreadsheet. Calls from Nelson and Martinez. Call to Gliedge about strategy. Calls to Marty, Ray, Loren about meeting schedule. Discuss with Dan about his possible testimony.	1.2
12-12-03	Call Gliedge about strategy. Meet with Martinez and Nelson about strategy and to approve demand spreadsheet. Calls to Gliedge about strategy and to Dale Hon of Assessors office about how he handles population #s and total parcels in PSWID. Update Jackson on strategy and review how he can help review my testimony. Call Ploughe on how he can help with testimony. Discuss Pine situation with Kyle Hart and Jerry Palmer (Pine resident). Calls to Pugel and Peterson about new Advisory Board members.	5.4
12-13-03	Prepare demand study for District + filing of Doc.s. Discuss testimony with Mike Ploughe. Call Bob Gardner for assistance with demand study and spread sheets to reconcile growth rates, census data, and build-out times. Review Ploughe e-mail. Work on Surrebuttal testimony.	15.6
12-14-03	Prepare Surrebuttal testimony to Hardcastle	12.3
12-15-03	Organize files and prepare materials for duplication. Go to printer. Review demand study with Bob Gardner and prepare new spreadsheet. Call to Dale Hon about data problems. Review my testimony with Dan Jackson and determine not to have him testify.	2.8

	Review revised spreadsheet with Gardner. Pick up printing and mailing boxes.	
12-16-03	Prepare mailings to Advisory Group members. Write e-mails. Call from Gliege on my testimony. Call from D. Jackson on e-mails. To printer and Pine post office. To Payson post office for Phx. Members. Calls to Pugel and Peterson. Call to Nelson on e-mails and Phx. hearing results. Final update of demand study after morning meeting with Bureau of Reclamation.	6.0
12-17-03	Prepare Hardcastle surrebuttal testimony. Call from Gliege and to Mark Reader and From Mark. More surrebuttal.	4.7
12-18-03	Prepare Surrebuttal. Review e-mails and motion for sanctions. Continue on Surrebuttal testimony.	6.7
12-19-03	Prepare Surrebuttal testimony. Update of Pugel and Peterson. Lunch meeting with Nelson and Martinez for update and review of next day agenda. Update with Gliege. Make copies of my testimony and Ploughe testimony for Advisory Group meeting.	9.7
12-20-03	Prepare for advisory meeting, do facility setup, attend meeting, and go to office supply store for printing materials.	6.8
12-21-03	Print and read 120 pages of motion to compel, sanctions, and protective orders from Shapiro. Prepare mailing of handouts to those who missed the meeting on Sat.	2.7
12-22-03	Update resume of Mike Ploughe and prepare to mail. Copy Ploughe resume. Go. to Payson P.O. Go to Pine P.O. for copy of Breninger letter demanding Bd. meeting in Pine. Study Breninger letter and organize files.	3.7
12-23-03	Review memos from Nelson and Hezel and prepare replies to each and to Gliege.	.8
12-24-03	File Documents and memo to Gliege	1.3
12-27-03	Memo to Gliege about Breninger	.4
12-29-03	Discuss news article and Peterson well with Ploughe. Review e-mails and respond to Peterson, Nelson, etc.	2.6
12-30-03	Memo to Peterson	1.1
12-31-03	Respond to Gliege on fact sheet memo. Meet with Nelson to discuss status, upcoming meeting, and what to do with Breninger. Review Breninger motion to dismiss District and his surrebuttal testimony.	4.1

Total Hours 140.1 @ \$45.00= 6,304.50

EXHIBIT

6

1 an outside contract, are to be accounted for simply as Contractual Services-Other per NARUC standards,
2 as required by the Commission. In addition to the issues of where to properly record wheeling charges,
3 the cost of purchased water is often confused with meter reading costs. Patricia Behm's meter reading
4 costs are often charged to the Purchased Water account rather than to Contract Services-Other (see
5 Responses CF5-2 and CF5-6 to Data Requests #5 from Staff. Total financial effects of misapplication of
6 the accounting system are difficult to compute until all errors are uncovered in an audit.

7
8 #4.1-17 Improper Expenses Identified by Staff: At Bourassa RT, page 13, he concedes the Company
9 accepts Staff's (a) proposed adjustment to Sales Tax expense, (b) plant-in-service, (c) material and
10 supplies expense, and purchased water. These types of admissions, when considered with other
11 adjustments and questions from the District, significantly reduce confidence in the accuracy and
12 reliability of the records and the testimony.

13
14 #4.1-18 Disagreements Over Efforts to Find Additional Water Resources: The District has maintained
15 at Jones Dt. 16 that PWCo has spent little effort and resources in an attempt to locate or develop
16 adequate sustainable long-term water resources for the certificated area. The lack of PWCo participation
17 in broad-based efforts to develop resources is covered in Jones Dt. 16. The efforts of Pine/Strawberry
18 Water Improvement District, the Northern Gila County Water Alliance Borehole Project, The Bureau of
19 Reclamation Regional study, and the efforts of Strawberry Hollow Domestic Water Improvement
20 District appear to be disregarded by PWCo based on their apparent belief that no additional water is to
21 be reasonably found or developed in the Pine/Strawberry area (Hardcastle Rt.2). No one study,
22 including the *Investigation of Groundwater Availability* study commissioned by the District are, on their
23 own, absolute definitive answers or conclusion related to the water problem (even if Intervener
24 Breninger personally claims "We Have the Water"). Mr. Hardcastle's notion is wrong that because the
25 District paid for its own study, the study is "right" and is the "gospel", and therefore the District is
26 contradicting itself anytime it takes a position different than its own study. The Borehole project,
27 supported by Gila County, PSWID, Forest Service, State Land, and others has provided encouragement
28 to Loren Peterson, a private landowner, to move forward to the near completion of the Strawberry
29 Hollow DWID's new well (a high-potential significant source of added water to the Pine area). Those

EXHIBIT

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1
2 4.1 In his surrebuttal testimony Mr. Jones testifies, "however the District's case and the
3 Staffs' concerns are generally "on target". What does the District mean when it testifies
its case is generally "on target." In support of the response, state:

- 4 (a) Each allegation or claim by the District that has been found valid or otherwise
5 upheld by the Commission in this case;
- 6 (b) Each objection by Pine Water to the District's discovery requests that has been
7 upheld;
- 8 (c) The impact on the Company's rate case expense of each matter identified in (a)
9 and/or (b) above.

10 ANSWER: #4.1 "On target" means that the District's case and the Staff's concerns are generally
11 accurate and factual, and they address the key points of the Rate Hearing. The reader should keep in
12 mind that for every approximate \$7,000 error (lower/higher expenses, etc.) as described below, PWCo
13 profits would be about 10% higher/lower than is targeted by the Commission (assumes \$70,052 would
14 be the allowed profits as described by Fernandez at Dt. 5 12-13). Please note that many of the
15 allegations posed by the District are not measurable in terms of financial costs, but may be measurable in
16 terms of service quality, confusing or misleading statements, inaccurate reporting to regulators, etc. It
17 should also be noted that inconsistent and inaccurate answers abound in the testimony, responses to
18 interrogatories, certified Annual Reports, and discovery provided to the District and the Commission.
19 Some adjustments requested by the Commission Staff that the District had also identified are included
20 below but remain the domain of the Staff.

21
22 #4.1-1 Improper Recording of Ownership of Subject Companies: The District's claim related to
23 improperly reported ownership of the entities involved in this case has been admitted by PWCo. The
24 ownership of PWCo and SWCo was misstated at the ACC Securities Division over a number of years
25 between 1999 and 2002. Ownership of those firms was stated to be Crystal Investments, when now in
26 fact PWCo claims Brooke Utilities, Inc. is the owner. ACC Securities Division Annual Reports of
27 PWCo and SWCo have apparently been corrected by PWCo and SWCo. The current rates case has not
28 been significantly impacted by this problem, however it did waste several days of the District's time to
29 get to the apparent truth, although the District has been denied access to the stock book records of the

EXHIBIT

8

1 entities to verify the points in question. Future rate case legal expenses will be affected if the costs of
2 making these changes are permitted to be included in the allowable test year expenses by the
3 Commission.

4
5 #4.1-2 Improper Payment of Property Taxes for Inter-affiliate Firms: PWCo's improper payment of
6 property taxes for SWCo over the years of 2000-2002 (see Jones DT 8) has been admitted by PWCo at
7 Bourassa Rt.21 21-26. Bourassa's excuse for these booking errors being "caused by the fact that the
8 property tax bills are addressed to Brooke Utilities and not specifically addressed to Pine Water or to
9 Strawberry Water" is hogwash, with each bill clearly indicating which entity should pay (see Exhibit XX
10 Jones Surrebuttal). Had this improper activity not been caught by the District, PWCo would have test
11 year expenses that would allow a \$16,617 larger than justified recovery of expenses through rates, and if
12 a 10% return on expenses (as recommended by Fernandez) was allowed by the Commission, an extra
13 \$1,661 profit would have been allowed, for a total excess recovery from ratepayers of \$18,278.

14
15 #4.1-3 Improper Accrued Property Taxes: The balance sheet item of accrued property taxes on 12-31-02
16 appears way high at \$29,001 on 12-31-02 test year for PWCo. This is explained by Bourassa at
17 Interrogatory 34 as an error related to PWCo paying property tax bills that really belong to SWCo. If left
18 standing, this excess accrual would allow the rate base to be excessively high (by the amount of the
19 error), allowing for unjustified recovery of return of return on assets employed.

20
21 #4.1-4 Improper Recording of Repair and Maintenance Expenses: PWCo's improper recording of repair
22 and maintenance expenses (see Jones DT 8-9) has been admitted by Bourassa at Rt. 26 22-26 and 27 1-
23 7. Had this improper activity not be caught by the District, PWCo would have been able to maintain the
24 \$59,423 expense claimed in the 2002 test year, while -\$0- was claimed for 2001, \$11,261 for 2000, and -
25 \$0- for 1999. It is apparent PWCo has poor control over their accounting system or is deliberately
26 moving expenses from company to company or from accounting category to accounting category. The
27 accounting for repair and maintenance expenses is a good example of the allegations by the District that
28 the accounting system, financial records, and financial statements are inaccurate, misleading, and
29 basically out of control. Bourassa claims in Interrogatory 30 that the missing amounts for 1999 and

2001 are \$16,325 and \$4,447 respectively, and he adjusted the test year down from \$59,000 to \$42,000, thereby admitting a \$17,000 overstatement of expenses for the test year.

#4.1-5 Improper Payment of Bills for Water Hauling for Inter-Affiliate Firms: Improper recording on the books of PWCo of hauling costs for inter-affiliate companies located at Tonto Basin and East Verde Estates (see Jones DT 9 and Jones Rt.18 15-20) has been ignored by PWCo. Supplying the District with bills paid by PWCo for water hauled to other subsidiaries of Brooke was a surprise, but is indicative of the poor accounting and control systems. The amount of improper bills paid over the years cannot be exactly determined, but it is obvious that PWCo has possibly overstated water-hauling expenses and, as such, test year expenses are likely overstated.

#4.1-6 Improper Reporting of Amounts and Sources of Purchased Water: Throughout the discovery process, PWCo appears to be unwilling to provide the answers to questions related to the correct levels and sources of purchased water. In answer to Interrogatory 1 which asks "what private individuals, other utility companies, or other entities does Pine Water Co. . . . acquire water from," Mistie Jared states that "PWCo acquires water from SWCo and Starlight Pines Water Co." No other suppliers are listed. Mr. Hardcastle makes the same claim that "PWCo has purchased water only from SWCo and Starlight Pines Water Co." in a reply to Interrogatory 14 related to terms of water supply agreements. However, the discovery documents from PWCo reflect water purchases from the additional following sources:

- (a) Water Sharing Agreements with Solitude Trails Domestic Water Improvement District, Ferrari, and Bloom. Solitude Trails, it has been discovered, supplies 6-12 million gallons per year to PWCo, with over 8 million gallons supplied in the test year.
- (b) Water hauling bills included with Attachment 5 of the PWCo answers to Interrogatory #3 were from Pearson Trucking and the bills indicate water was purchased from the Knolls (apparently another Brooke Utilities subsidiary) and the Knolls has not been disclosed as a source of purchased water. In addition, Sheet 82B attached to the response to Data Request 8 of the Commission Staff

EXHIBIT

9

**PINE WATER COMPANY
2003 GENERAL RATE CASE
DOCKET NO. W-03512A—03-0279
RESPONSE TO DATA REQUEST NO. 9**

Company Response Number: CF 9-2

- Q Please provide copy of the 2001 general ledger of Brooke Utilities Inc. which reflects that the Magnolia Project was placed in service in February 2001.
- A. PWC's accounting records do not show the date Project Magnolia was placed into service. ADOT and US Forest Service permits were issued prior to construction of the water line and also do not provide an in service date. However, attachment 9-2 is a copy of the first bill sent to Pine Water from Brooke Utilities dated March 1, 2001, which is consistent with Mr. Hardcastle's testimony that the project was placed in service in February 2001. The start read on the new meter was 79000 because Pine Water was not billed for water used to flush and test line.
-

Brooke Utilities, Inc.
P.O. Box 82218, Bakersfield, CA 93380

INVOICE

Date: March 1, 2001
To: Pine Water Co., Inc.
P.O. Box 82218
Bakersfield, CA 93380
For: Water Delivery Services
Month: February
Year: 2001

Beginning of Month Meter Reading:
End of Month Meter Reading:
Water Delivered

79,000
648,000
569,000

Rate per 1,000 Gallons

\$ 15.00

Amount Due This Invoice

\$ 8,535

ALL PAYMENTS DUE UPON RECEIPT

EXHIBIT

10

- 2.2 The attached file "pinedsc.xls" includes the cash flow analysis and debt service calculation prepared by Mr. Reiker.

Response by: Joel M. Reiker

No payback period has been established by Staff regarding the inter-company payable since Staff is not recommending approval.

Response by: Claudio Fernandez

Staff is not recognizing the inter-company payable in its recommended rates. However, Staff believes that the Company is in a better position to make a determination as to the proposed treatment of the payable. The Company choices could include writing-off the payable, issue equity or payback the inter-company payable.

Response by: Claudio Fernandez

Staff's response to Company data request 2.2

1	Operating Income	\$	70,130
2	Depreciation & Amort.		42,478
3	Income Tax Expense		11,589
4			
5	Interest Expense		18,505
6	Repayment of Principal		25,210

Times Interest Earned Ratio (TIER)		
[1+2+3] ÷ [5]		6.71
Debt Service Coverage (DSC)		
[1+2+3] ÷ [5+6]		2.84

- 1 Per testimony of Claudio Fernandez Schedule CMF-9
- 2 Per testimony of Claudio Fernandez Schedule CMF-9
- 3 Per testimony of Claudio Fernandez Schedule CMF-9
- 5 Per 12/31/2002 annual report & Staff's response to Company data request 2.2 page 2
- 6 Per 12/31/2002 annual report & Staff's response to Company data request 2.2 page 2

Staff's response to Company data request 2.2

Loan Amount Requested	\$149,979		
Down Payment:	\$0		
Amount Financed:	\$149,979		
Number of years:	15	Compounding Periods:	12
Interest rate (r):	8.00%		

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning- of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$1,433.28	\$149,979.00	\$999.86	\$433.42	\$149,545.58			
2	1,433.28	149,545.58	996.97	436.31	149,109.28			
3	1,433.28	149,109.28	994.06	439.22	148,670.06			
4	1,433.28	148,670.06	991.13	442.14	148,227.92			
5	1,433.28	148,227.92	988.19	445.09	147,782.82			
6	1,433.28	147,782.82	985.22	448.06	147,334.77			
7	1,433.28	147,334.77	982.23	451.05	146,883.72			
8	1,433.28	146,883.72	979.22	454.05	146,429.67			
9	1,433.28	146,429.67	976.20	457.08	145,972.59			
10	1,433.28	145,972.59	973.15	460.13	145,512.46			
11	1,433.28	145,512.46	970.08	463.19	145,049.27			
12	1,433.28	145,049.27	967.00	466.28	144,582.98	11,803.31	5,396.02	17,199.33

EXHIBIT

11

Pine Water Company
Cash Flows Available for Plant Investment Under Staff's Proposals
Test Year Ended December 31, 2002

Exhibit
 Witness: Bourassa

Line No.					Staff Proposed	
					Using Rate Base (8.7% Return)	Using Operating Margin (11% return)
1	Staff Recommended Earnings				\$ 55,657	\$ 70,130
2	Less:					
3	Interest Expense				17,534	17,534
4	Available				\$ 38,124	\$ 52,596
5						
6				Repayment Term In Years		
7	Principal Payment on Debt					
8	Existing Debt	\$ 55,353	6	\$ (9,225)	\$ (9,225)	
9	Staff's Proposed Debt Financing	\$ 149,979	15	(9,999)	(9,999)	
10	Available Without Depreciation			\$ 18,900	\$ 33,372	
11	Depreciation			42,478	42,478	
12	Repayment of Inter-Company Payable	\$ 533,000	5	(106,600)	(106,600)	
12	Dividends					
13	Available Cash Flows for Plant Investment				\$ (45,222)	\$ (30,750)
14						
15						
16						

1 FENNEMORE CRAIG
Jay L. Shapiro (No. 014650)
2 Patrick Black (No. 017141)
3003 N. Central Ave.,
3 Suite 2600
Phoenix, Arizona 85012
4 Attorneys for Pine Water Company, Inc.

5
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE
APPLICATION OF PINE WATER
9 COMPANY FOR A
DETERMINATION OF THE
10 CURRENT FAIR VALUE OF ITS
UTILITY PLANT AND PROPERTY
11 AND FOR INCREASES IN ITS
RATES AND CHARGES BASED
12 THEREON FOR UTILITY SERVICE
AND FOR APPROVAL TO INCUR
13 LONG-TERM DEBT

DOCKET NO: W-03512A-03-0279

14
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16
17
18
19 **REJOINDER TESTIMONY OF**
20 **ROBERT T. HARDCASTLE**
21
22
23
24
25
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1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND TELEPHONE**
3 **NUMBER.**

4 A. Robert T. Hardcastle, 3101 State Rd., Bakersfield, California 93308. The business
5 telephone number is (661) 633-7546.

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am the President of Brooke Utilities, Inc. ("Brooke"). Brooke is the sole
8 shareholder of the Applicant, Pine Water Company, Inc. ("Pine Water" or the
9 "Company").

10 **Q. ARE YOU THE SAME ROBERT T. HARDCASTLE THAT FILED DIRECT**
11 **AND REBUTTAL TESTIMONY IN THIS MATTER?**

12 A. Yes.

13 **II. PURPOSE AND SUMMARY OF REJOINDER TESTIMONY.**

14 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN THIS**
15 **PROCEEDING?**

16 A. I have reviewed Staff's surrebuttal filing, which includes the testimony of Staff's
17 three witnesses, Claudio M. Fernandez, Joel M. Reiker and Marlin Scott, Jr. I have
18 also reviewed the surrebuttal filings by Intervenors Pine/Strawberry Water
19 Improvement District ("District") and John O. Breninger. The purpose of my
20 rejoinder is to respond to certain issues raised in these testimonies, particularly with
21 respect to Brooke Utilities' ownership of Project Magnolia, the Company's request
22 for cost recovery associated with water deliveries through Project Magnolia,
23 existing water supply issues and the possibility of new water sources for the
24 Company. I use the term "possibility" because over the past fifty (50) years, no
25 study has concluded that there is a viable new water source in or under Pine,
26 Arizona. I also respond to certain selected portions of the District's testimony.

1 Finally, I will respond to questions asked of the Company in a December 9, 2003
2 letter from Commissioner Hatch-Miller, which letter followed the Commission's
3 public comment session held on December 8, 2003 in Pine, Arizona. In responding
4 to Commissioner Hatch-Miller's questions, I will also address several other issues
5 raised by customers during the Commission's three public comment sessions.

6 **Q. WOULD YOU PLEASE SUMMARIZE YOUR REJOINDER TESTIMONY?**

7 A. Certainly. My rejoinder testimony focuses on five major issues. These issues are
8 as follows:

- 9 • Ownership of Project Magnolia. It is my position that this should not
10 even be an issue in this rate case and the Company does not concede
11 that the Commission even has the right to make a decision regarding
12 who owns the pipeline. The overwhelming evidence supports the
13 fact that Brooke owns Project Magnolia. Despite Staff's assertions to
14 the contrary, ownership status is not determined based on generic and
15 outdated information from prior rate cases.
- 16 • Cost Recovery for Water Deliveries Through Project Magnolia. By
17 contrast, this is an issue the Commission can and should address in
18 this docket. Buying excess water from Strawberry Water Company
19 ("Strawberry Water") for delivery through Project Magnolia is
20 currently the only viable water supply alternative to trucking when
21 the wells in Pine Water's CC&N are inadequate to meet customer
22 demand. To date, Pine Water has never paid for such water,
23 requiring Brooke to subsidize water service. That subsidy is going to
24 cease in the near future. Therefore, without adequate cost recovery,
25 Pine Water will not be able to buy water from Strawberry Water for
26 delivery through Project Magnolia.
- Water Supply Issues. Water in and around Pine, Arizona is in scarce
supply. In response, Intervenor John Breninger continues to
advocate massive deep well drilling in the Strawberry Valley north of
Pine, but refuses to address the ratemaking impacts of his proposed
plan. The District has hired yet another consultant, Michael Ploughe,
who contradicts the conclusions reached by the District's prior
consultants that there is no additional water in Pine, Arizona. Not
surprisingly, these are the same conclusions Mr. Breninger relies on,
and which the Company relied upon in our rebuttal filing. The
District's latest consultant also disagrees with Mr. Breninger's
conclusion that "we have the water" but recommends Pine Water
build a massive storage tank for over \$1 million. Meanwhile, Staff
agrees that it is uncertain whether additional supplies are available
and points out that a test well can be drilled in the Strawberry Valley
for as much \$870,000, but offers no recommendation whether Pine

1 Water should take such a step and no discussion of the ratemaking
2 impacts. In sum, unless the Commission provides some guidance on
3 these difficult issues, it is virtually impossible for Pine Water to
4 determine what action would be prudent.

- 5 • The District's Surrebuttal Filing. For a variety of reasons, the
6 District continues to advocate depriving Pine Water of rate relief at
7 this time. Mr. Bourassa will address a number of the accounting
8 mistakes and misrepresentations offered by District witness Jones.
9 For my part, I will also address several of Mr. Jones' misstatements
10 as well as explain the repercussions of a decision by the Commission
11 to deny rate relief, including the fact that Pine Water would be unable
12 to meet customer demand for water by June 2004.
- 13 • Commissioner Hatch-Miller's Letter and Public Comment. Pine
14 Water appreciates the opportunity to respond to the Commissioner's
15 questions and to address a number of issues raised by our customers.
16 It is unfortunate that our customers still appear to lack accurate
17 information regarding these matters and hope these answers to
18 Commissioner Hatch-Miller and some of the additional questions
19 posed during the public comment sessions will set ratepayer minds at
20 ease. Pine Water is doing everything it reasonably can to ensure
21 adequate water for its customers under the most difficult of
22 circumstances.

23 **III. PROJECT MAGNOLIA.**

24 **Q. WHAT ENTITY OWNS PROJECT MAGNOLIA?**

25 A. Brooke Utilities.

26 **Q. THE DISTRICT ARGUES THAT PINE WATER HAS PRODUCED NO EVIDENCE TO SUPPORT THAT CLAIM. DO YOU AGREE?**

A. No, the District's claim, actually made in its recent Motion to Consolidate (Docket No. W-03512A-03-0106, January 20, 2004), ignores a mountain of evidence reflecting Brooke's ownership.

Q. WHEN DID PLANNING AND CONSTRUCTION OF PROJECT MAGNOLIA BEGIN?

A. Sometime in 1997, Brooke began exploring the idea of connecting separate Brooke systems by a pipeline as a means of enhancing the ability to augment supplies in times of critical shortage. In November 1997, SWCA Environmental Consultants,

1 Inc. completed a cultural resources study for Brooke concerning a 1.9-mile pipeline
2 project. See Hardcastle Rejoinder Exhibit 1. A week later, Brooke retained
3 ASL/Sierra Consulting Engineers to provide engineering services related to what
4 by then was known as Project Magnolia. *Id.*

5 By August of the following year, Brooke had entered into a Memorandum
6 of Understanding with the US Forest Service regarding a proposed pipeline from
7 Pine to Strawberry, Arizona. *Id.* In November 1998, again on behalf of Brooke, I
8 wrote to the District seeking clarification of its support or opposition to Project
9 Magnolia. *Id.*

10 **Q. HAS PINE WATER PREVIOUSLY PRODUCED THIS EVIDENCE?**

11 A. Some, such as the Forest Service permit, which was attached to my rebuttal
12 testimony along with an ADOT permit application and some examples of invoices
13 for hard plant costs incurred by Brooke in 2000-2001. Frankly, because Pine Water
14 does not believe ownership of the pipeline should be an issue in this case, the
15 Company thought that Staff would be satisfied with the evidence provided in our
16 rebuttal filing clearly evidencing Brooke's ownership of the pipeline. Staff is the
17 party that has attempted to make ownership an issue, rather than focusing on cost
18 recovery. Now, given that Staff has not changed its view in the face of clear and
19 convincing evidence, and that the District has jumped on the bandwagon and
20 submitted sweeping discovery requests, the Company is now forced to go further in
21 an effort to convince the Commission of Brooke's ownership of Project Magnolia.
22 Otherwise, I fear the Company is in for a long and costly struggle.

23 **Q. PREVIOUSLY YOU TESTIFIED THAT A FINAL DECISION**
24 **REGARDING WHO WOULD BUILD AND OWN PROJECT MAGNOLIA**
25 **HAD NOT BEEN MADE WHEN THE 1999 RATE CASE WAS FILED. ARE**
26 **YOU NOW TESTIFYING A DECISION HAD BEEN MADE?**

1 A. Not at all. This was a complex decision, a lot of factors needed to be considered
2 and evaluated and Brooke could not even be certain it could build the pipeline at all
3 when the Company filed its rate application in February 1999, based on a June 30,
4 1998 test year. Remember, the Forest Service did not issue the Special Use Permit
5 until February 2000, after all the required assessments and notices were complete.
6 See Hardcastle Rebuttal Exh. 3. A month later the rate case was decided and
7 shortly thereafter a decision was made that Brooke would build, own and operate
8 the pipeline.

9 **Q. WHAT EVIDENCE DOES THE DISTRICT PRESENT SHOWING THAT**
10 **PINE WATER OWNS THE PIPELINE?**

11 A. None. Lacking an independent analysis of its own, the District relies on Staff's
12 analysis. Mr. Jones declares that "the best evidence of ownership are the facts that
13 the project was listed as a \$17,040 asset on a plant listing in 1998, and it was
14 included in CWIP and also listed as a capital project to be funded with stock during
15 the Company's last rate case. The Staff appears to have properly recognized the
16 situation." See Surrebuttal Testimony of Harry Jones, ("Jones' Sb.") at 12 *citing*
17 Surrebuttal Testimony of Claudio M. Fernandez ("Fernandez Sb.") at 8 (emphasis
18 supplied). Thus, the District simply echoes the same arguments and conclusions
19 advanced by Staff.

20 **Q. IF NO DECISION REGARDING OWNERSHIP HAD BEEN MADE AT THE**
21 **TIME THE 1999 RATE CASE WAS FILED, WHY WERE COSTS OF**
22 **PROJECT MAGNOLIA REFLECTED IN THAT FILING?**

23 A. I do not know for certain as I was not the "accounting" witness in that rate case, but
24 it appears that some of the invoices for Brooke's 1997-98 activities were paid by
25 subsidiary entities, including E&R Water, Pine Water's predecessor.

26 **Q. IF BROOKE WAS THE ENTITY ENGAGING THESE CONSULTANTS**

1 **AND ENTERING INTO AGREEMENTS, WHY WOULD E&R WATER BE**
2 **PAYING BROOKE'S INVOICES?**

3 A. It has been several years now and I simply am not sure how we decided which
4 entity would pay which invoice. In some cases, I assume invoices for those earlier
5 activities were sent to Brooke, but many were received by the local office in
6 Arizona, where they were coded for payment and then paid by the subsidiary. As
7 such, there would have been ledger entries for E&R that would have been picked
8 up when the 1999 rate case was filed. Some 1999 invoices in Brooke's name were
9 paid by the subsidiaries as well. Again, I am not really sure why these invoices
10 were routed, in some cases by me, for payment by the subsidiary, except that no
11 final decision had been made regarding who would own Project Magnolia.

12 I would also note I need to clarify my rebuttal testimony, to the extent I
13 testified that Pine Water's book and records do not reflect payment of any costs
14 associated with Project Magnolia. *E.g.*, Hardcastle Rb. at 21. Although at times I
15 was careful to clarify that no costs of constructing or operating the pipeline were
16 paid by Pine Water, at others times I could have been more careful in my
17 testimony. Again, to be clear, some Project Magnolia costs invoiced to Brooke
18 before the 1999 rate filing was decided in March 2000 were paid by E&R or Pine
19 Water, as explained above and to the extent I stated otherwise that testimony needs
20 to be modified.

21 Q. **MR. HARDCASTLE, AREN'T THESE EXACTLY THE TYPES OF**
22 **BOOKKEEPING ERRORS THE DISTRICT HAS BEEN HARPING ON**
23 **THROUGHOUT THIS CASE?**

24 A. Yes, and they have a point about our previous bookkeeping errors. I would note
25 that by 1997-1998, we had owned these systems for only a couple years and the
26 entire utility business was new to us. We also did not have someone of Mr.

1 Bourassa's experience and skills at the time, or until this case was being prepared
2 really, and mistakes were being made. In any event, this case has taught the
3 Company a lot and by the next rate case the lessons will have been learned and the
4 books will certainly be in much better condition.

5 **Q. BUT DOESN'T THIS PROVE THE DISTRICT'S POINT THAT ALL OF**
6 **BROOKE'S RECORDS AND ALL OF THE SUBSIDIARIES NEED TO BE**
7 **OPENED UP SO THAT THE COMMISSION CAN ENSURE THAT NO**
8 **HARM HAS COME TO RATEPAYERS?**

9 A. No. Despite all of the District's claims regarding inadequate record keeping, the
10 District has not pointed to a single instance where our shortcomings have impacted
11 the rates paid by our customers, either currently or in the future. And while I
12 expect the District, and perhaps even Staff, to declare E&R/Pine Water's pre-
13 Decision No. 62400 payment of planning or engineering costs related to Project
14 Magnolia the "smoking-gun", this is not the case. All of the hard costs of the
15 pipeline were paid for by Brooke beginning in 2000, after Decision 62400 rejected
16 any possible ratemaking treatment of those costs, and after the Forest Service and
17 ADOT permits were issued. See Rejoinder Testimony of Thomas J. Bourassa
18 ("Bourassa Rj.") at 8-9 & Bourassa Rejoinder Exhibit 1. Brooke also holds all the
19 permits and approvals and has paid all of the operating and maintenance costs since
20 the pipeline went operational three years ago.

21 **Q. BUT AREN'T PINE WATER RATEPAYERS, FORMERLY E&R WATER**
22 **RATEPAYERS, PAYING FOR THOSE COSTS INCURRED BY E&R**
23 **WATER IN 1997-99 RELATED TO PROJECT MAGNOLIA?**

24 A. Absolutely not. Not a single dollar spent by E&R to pay Brooke's invoices has
25 ever been included in rate base or operating expenses for ratemaking purposes. It
26 must be recalled that, on Staff's recommendation, the \$17,040 listed as Project

1 Magnolia costs on Schedule E-5 (Hardcastle Rebuttal Exh. 5) in the last rate case
2 was removed as not being used and useful. Fernandez Sb. at 5. Moreover, none of
3 those pre-Decision No. 62400 costs are included in the original cost of \$449,598 for
4 the pipeline. Instead, with one minor exception for approximately \$1000, the
5 \$449,598 represents the actual costs of constructing the pipeline, paid by Brooke,
6 shown on Brooke's general ledger and incurred in or after September 2000
7 Bourassa Rj. at 8-9.¹ Of course, I would also note that our customers have yet to
8 pay a dollar for water bought and delivered through Project Magnolia.

9 **Q. DID STAFF PRESENT ANY NEW EVIDENCE IN ITS SURREBUTTAL**
10 **TESTIMONY THAT WOULD SUPPORT THE CLAIM THAT PINE**
11 **WATER OWNS PROJECT MAGNOLIA?**

12 A. Not really. For the most part, Staff merely repeats the position taken in its direct
13 testimony. For example, Mr. Fernandez testifies that the "Company's last rate
14 application reflected CWIP of \$334,242 which represented the cost of Project
15 Magnolia up to the time of the filing." See Fernandez Sb. at 5.²

16 **Q. IS MR. FERNANDEZ SUGGESTING THAT PINE WATER (OR E&R**
17 **WATER) SPENT \$334,242 ON PROJECT MAGNOLIA PRIOR TO THE**
18 **FILING OF THE LAST RATE CASE?**

19 A. That is exactly what Mr. Fernandez is claiming and obviously he is wrong. That
20 rate application was filed in February 1999. As discussed above, although some
21 costs were incurred prior to and shortly after the filing of the application, and some
22 of those were paid for by E&R/Pine Water, the Forest Service did not issue the

23
24 ¹ The exception involves an amount paid in 2000 by Pine Water and Strawberry Water as an expense,
25 which payments were later reclassified to Brooke's general ledger. See Bourassa Rj. at Bourassa
26 Rejoinder Exhibit 1.

² This is the same testimony referred to by Chairman Spitzer during the January 29, 2004 Open Meeting on
the Company's Surcharge Tariff.

1 Special Use Permit for the pipeline until February 2000 and it was later in when the
2 hard costs began. *See* Bourassa Rj. at 8, Bourassa Rejoinder Exhibit 1. *See also*
3 Hardcastle Rb. at Exhibits 3 and 4.

4 **Q. WHERE DOES THE \$334,242 FIGURE MR. FERNANDEZ RELIES ON**
5 **COME FROM?**

6 A. From a schedule entitled Capital Expenditure Budget 1999 through 2003 included
7 in the February 1999 application. One of the listed projects is Project Magnolia at
8 an estimated cost of \$300,000. As I clearly explained in my rebuttal testimony,
9 however, that was a listing of proposed capital budget items under consideration.
10 *See* Hardcastle Rb. at 22-23 and Hardcastle Rebuttal Exh. 5.

11 In fact, the schedule itself contradicts Staff's claim that \$334,242 was spent
12 on the project prior to the last rate case being filed because the schedule in question
13 projects that the costs for Project Magnolia will be incurred in the 2nd and 3rd
14 quarters of 1999, an estimate that was obviously off by more than one year. *See*
15 Hardcastle Rebuttal Ex. 5. In sum, as Mr. Bourassa explains in his rejoinder, Mr.
16 Fernandez' \$334,242 number does not represent real costs. Therefore, it cannot
17 possibly be the "best evidence of ownership"—as Mr. Jones alleges, nor could it
18 clearly establish ownership, as Mr. Fernandez testifies. *See* Fernandez Sb. at 5.

19 **Q. DID THE COMMISSION AUTHORIZE CWIP TO BE INCLUDED IN**
20 **RATE BASE IN THE LAST RATE CASE?**

21 A. No, and this is what makes Staff's arguments so inadequate.

22 **Q. WHAT DO YOU MEAN, MR. HARDCASTLE?**

23 A. Staff argues that the Company failed to obtain Commission approval to transfer
24 ownership of Project Magnolia to Brooke. *See* Fernandez Sb. at 4. Apparently,
25 Staff wishes the Commission to find that Pine Water has violated ARS § 40-285.
26 But how can ownership of an physical asset that does not even exist be transferred?

1 Again, it wasn't until after the rate case, after all ratemaking treatment of Project
2 Magnolia was rejected, after Brooke received the necessary permits and approvals
3 that Brooke made a final decision to build the pipeline. Again, I do not see how the
4 1999 rate filing could have established ownership of a non existent asset.

5 **Q. YOU MENTIONED ARS § 40-285. WOULD THAT HAVE BEEN**
6 **APPLICABLE?**

7 A. I am not a lawyer, but it does not take a lawyer to see that on its face, the statute is
8 not applicable. The statute provides that a public service corporation shall not
9 transfer any part of its plant "**necessary or useful**" in the performance of its duties
10 without Commission approval. ARS § 40-285.A (emphasis added). Based on
11 Staff's own recommendation, the Commission had just found that any costs related
12 to Project Magnolia, which costs were not the costs of the pipeline itself, were not
13 used and useful in the performance of the utility's duties. *See* Fernandez Sb. at 5.
14 Again, as of the conclusion of the last rate case in March 2000, there was no
15 pipeline.

16 **Q. BUT THE COMMISSION DID GRANT AUTHORITY TO ISSUE STOCK**
17 **TO FINANCE CAPITAL IMPROVEMENTS?**

18 A. That is correct, although that financing approval was not tied to any specific
19 projects, timelines or costs nor had Brooke made final decisions regarding which
20 projects would be undertaken at that time, let alone how those projects would be
21 financed, owned and operated. Again, I am not a lawyer, but it seems to me that
22 issuance of stock in exchange for financing a specific capital project might
23 establish ownership, not the mere grant of unspecified financing authority by the
24 Commission.

25 **Q. WAS THE STOCK EVER ISSUED?**

26 A. No, and no financing for Project Magnolia is found on Pine Water's books or

1 reflected in its capital structure. *See* Fernandez Sb. at 4.

2 **Q. WHAT ABOUT STAFF'S ASSERTION THAT IT WAS LED TO BELIEVE**
3 **THAT PROJECT MAGNOLIA WAS GOING TO BE OWNED BY THE**
4 **COMPANY?**

5 A. I am not sure what to make of this claim, which Mr. Fernandez supports by
6 reference to the same two aspects of the last rate case, CWIP and financing
7 authority, which I addressed above. *Id.* at 6. The fact remains that the Commission
8 did not include CWIP in rate base and the Company did not issue common stock to
9 fund Project Magnolia. Moreover, at no time after Decision No. 62400 (March 31,
10 2000) did Brooke or Pine Water represent to Staff that Project Magnolia was being
11 built by Pine Water (or E&R Water), rather than Brooke. As is now clear, Brooke
12 didn't even know who was building the Project until after the last rate case was
13 decided. Therefore, I fail to see how this claim, even if it were true, relieves Staff
14 of its present duty to properly analyze the evidence presented in this case.

15 **Q. STAFF IS CRITICAL OF THE COMPANY FOR SECOND GUESSING THE**
16 **PRUDENCY OF PROJECT MAGNOLIA BASED ON THE RESULTS OF**
17 **THE COMPANY'S LAST RATE CASE. HOW DO YOU RESPOND?**

18 A. Staff should try to run a water company in Pine, Arizona before criticizing our
19 business judgment. In fact, after delivering more than 38,000,000 gallons of **free**
20 water to Pine Water ratepayers through the project, Brooke is second-guessing
21 whether it should have built the pipeline at all. In any event, Staff's argument is
22 irrelevant. As much as one would like to rely upon the Commission and other
23 jurisdictional governmental entities to adhere to consistent regulatory standards,
24 business decisions will often hinge on the risks associated with regulatory change.
25 As I have said, before the last rate case, no final decision had been made regarding
26 who would build Project Magnolia, although management was clearly leaning

1 towards having it built by Brooke. Ultimately, it was decided that the risks
2 commensurate with the project favored it being built, owned and operated by
3 Brooke.

4 **Q. WHAT OTHER FACTORS LED TO THE FINAL DECISION THAT**
5 **BROOKE WOULD OWN AND OPERATE PROJECT MAGNOLIA?**

6 A. Of significant importance to Brooke were considerations related to Gila County.
7 *See* Hardcastle Rb. at 26. Gila County and real estate interests in Pine, Arizona
8 kept applying political pressure to lift the Commission-imposed moratorium on
9 new service hookups in Pine Water's service territory. Meanwhile, renegade
10 elements within the District continued to voice a desire to supplant Commission
11 authority over the distribution and control of water in the Pine-Strawberry area.
12 Project Magnolia suddenly became a much riskier investment, and Brooke quickly
13 realized that the most efficient way to help alleviate Pine Water's chronic water
14 shortage problems was to build Project Magnolia itself.

15 **Q. ARE YOU SUGGESTING THAT THE BROOKE COULD NOT EARN A**
16 **JUST AND REASONABLE RETURN ON PROJECT MAGNOLIA UNDER**
17 **REGULATION?**

18 A. I am. Indeed, Staff readily admits that the Company is "partially" correct in
19 asserting that the regulatory process could not provide an adequate rate of return to
20 the Company for Project Magnolia. *See* Fernandez Sb. at 6. This is certainly being
21 borne out as true in this case where Staff is recommending a 9% cost of equity. *See*
22 Surrebuttal Testimony of Joel M. Reiker ("Reiker Sb.") at 36. Given the risks that
23 were faced and are still being faced, and the fact that this pipeline likely could not
24 be built today, the current value of Project Magnolia greatly exceeds original cost
25 and 9% is far too low a rate of return.

26 **Q. WHAT ABOUT MR. JONES' CHARACTERIZATION OF YOUR**

1 **ARGUMENT REGARDING THE RISK BORNE BY BROOKE AS WEAK?**

2 A. “Weak” is a term that should be reserved for testimony that is circular in nature,
3 and conclusory at best. Mr. Jones has no knowledge whatsoever of the situation
4 Brooke faced in the mid to late 1990’s after acquiring this system and therefore can
5 only rely on unsupported speculation. Moreover, his contention that Brooke and
6 Pine Water face the same risk everyday fails to recognize the simple caveat that
7 regulated entities have rates of return established by regulators, while unregulated
8 entities have their returns set by the market. *See Jones Sb. at 13.*

9 He also incorrectly assumes that Brooke can just unilaterally impose
10 additional charges on Pine Water. *Id.* Besides a violation of the Wheeling
11 Agreement, Pine Water would only be allowed to recover from ratepayers an
12 amount established by the Commission.

13 **Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING STAFF’S**
14 **POSITION THAT PINE WATER OWNS PROJECT MAGNOLIA?**

15 A. Yes. It should be obvious that Staff has found an opportunity to take advantage of
16 Brooke in order to provide a windfall to Pine Water’s ratepayers. Brooke’s
17 investment in Project Magnolia was made at a time when risk was high. Now that
18 the pipeline is built and the risks associated with construction reduced, Staff seeks
19 to secure an asset built at high risk to the Company’s shareholder for a bargain
20 basement price. In short, Staff refuses to recognize the risks Brooke undertook in
21 order to address the water shortage issues in Pine, Arizona.

22 **IV. PROJECT MAGNOLIA COST RECOVERY.**

23 **Q. DO YOU STILL BELIEVE A \$15 PER THOUSAND WHEELING CHARGE**
24 **IS REASONABLE?**

25 A. Yes, for the reasons Mr. Bourassa and I have testified to throughout this case. *See*
26 Hardcastle Rb. at 27-32; Bourassa Rb. at 14-15. Put simply, this is a market-based

1 rate taking into account the alternatives and reflective of the risk Brooke took in
2 building the pipeline.

3 **Q. WHAT ABOUT MR. BRENINGER'S "CHALLENGE" TO JUSTIFY THE**
4 **\$15 PER 1000 GALLONS WHEELING CHARGE?**

5 A. Mr. Breninger's challenge is after the fact. In my rebuttal testimony, I provide
6 several different approaches to support the basis for a wheeling charge of \$15 per
7 1000 gallons. Hardcastle Rb. at 27-32. He simply ignores this testimony in issuing
8 his challenge. By contrast, I challenge Mr. Breninger to provide evidence that
9 contradicts my testimony. In fact, I even provided a comparison of the cost of
10 Project Magnolia relative to the costs of the massive deep well project Mr.
11 Breninger recommends Pine Water pursue. *Id.*

12 **Q. ARE YOU AWARE OF OTHER SITUATIONS WHERE AFFILIATES**
13 **PROVIDE SERVICES TO REGULATED UTILITIES?**

14 A. I believe many public service corporations (e.g., Arizona Public Service, Qwest
15 Corporation) are major beneficiaries of services provided by parent companies or
16 affiliates, and the Commission has administrative rules to regulate such inter-
17 affiliate transactions. *See A.A.C. R14-2-801 et seq.* The transaction at issue in this
18 case, the delivery of water through Project Magnolia by Brooke, has been subjected
19 to a similar level of scrutiny.

20 **Q. DOES THIS MAKE BROOKE A PUBLIC SERVICE CORPORATION?**

21 A. I do not think so. Again, I cannot offer a legal opinion but I am aware that the
22 Arizona courts have held that the El Paso natural gas line did not make that entity a
23 public service corporation. *See Southwest Gas Corp. v. Arizona Corporation*
24 *Commission*, 169 Ariz. 279 (App. 1991). Like Brooke, El Paso has entered into
25 long-term contracts. Moreover, unlike El Paso, Brooke does not sell to any end-
26 users. Both Pine Water and Strawberry Water, the only two potential customers of

1 the pipeline, are re-sellers. *Id.* at 286-89.

2 **Q. BUT YOU AGREE THAT THE COMMISSION HAS THE POWER TO**
3 **DETERMINE THE APPROPRIATE LEVEL OF EXPENSE PINE WATER**
4 **CAN RECOVER FOR WATER DELIVERIES THROUGH PROJECT**
5 **MAGNOLIA?**

6 A. Of course. However, Brooke is not bound by a decision of the Commission to set
7 the wheeling rate based on the more traditional, regulatory cost of service approach.

8 **Q. DOES THIS MEAN BROOKE WILL STOP DELIVERING WATER**
9 **THROUGH PROJECT MAGNOLIA IF THE COMMISSION DOES NOT**
10 **APPROVE THE \$15 PER THOUSAND WHEELING CHARGE?**

11 A. Not necessarily. Brooke will have to evaluate the amount the Commission
12 authorizes Pine Water to recover from ratepayers for this service. If Brooke
13 determines that the level of recovery is insufficient to cover its expenses and
14 provide a return on its investment, it will have to evaluate its options and make a
15 business decision. Certainly, one of those options would be discontinuing a service
16 Pine Water cannot afford.

17 **Q. MR. HARDCASTLE, ISN'T BROOKE JUST USING ITS OWNERSHIP OF**
18 **PROJECT MAGNOLIA TO COERCE FAVORABLE RATEMAKING**
19 **TREATMENT OUT OF THE COMMISSION?**

20 A. That was clearly the view expressed by some Commissioners during the January
21 29, 2004 Open Meeting to consider the Company's requested amendment to its
22 Water Augmentation Surcharge Tariff ("Surcharge Tariff") to include the costs of
23 purchasing water from Strawberry Water for delivery through Project Magnolia. In
24 fact, the Commission expressed such displeasure with Pine Water for even making
25 such a request, the Company was threatened with an Order to Show Cause and the
26 simultaneous suspension of the Surcharge Tariff if Brooke didn't continue to

1 provide free water from Strawberry Water and free delivery of such water through
2 Project Magnolia. See Transcript of Special Open Meeting, January 29, 2004
3 ("TR") at 125-167. Clearly, the Commission was determined to make sure Brooke
4 and Pine Water did, as one Commissioner put it, "do what's right." Tr. at 136. In
5 other words, I guess it is fair to say that the Commission agreed with the District's
6 view that Brooke is guilty of extortion. Tr. at 168.

7 **Q. HOW DO YOU RESPOND TO THESE ALLEGATIONS?**

8 A. The Commission is mistaking business reality for blackmail. In doing so, they are
9 lending credence to the District's misuse of this proceeding to drive us out of
10 business in Pine and Strawberry, Arizona. Brooke spent at least \$450,000 building
11 Project Magnolia. It has yet to recover one dollar for that investment. To make
12 matters worse, Brooke has also been forced to pay for the water Pine Water buys
13 from Strawberry Water because Pine water cannot afford that either. From
14 February 2001 through the end of last year, Brooke had subsidized Pine Water's
15 ratepayers to the tune of more than \$500,000. Against this backdrop, Brooke made
16 a business decision to stop the bleeding by stopping deliveries through the pipeline.
17 Of course, this decision was made with full knowledge that the same water could be
18 purchased from Strawberry Water and hauled by truck with an assurance of cost
19 recovery under the Surcharge Tariff. So, while water costs would have increased to
20 customers, the same quantity of water would have been available.

21 **Q. WHAT WAS STAFF'S REACTION WHEN INFORMED OF THIS**
22 **DECISION?**

23 A. Staff's initial reaction was quite unfavorable. Nonetheless, recognizing the
24 economic value of Brooke's service to Pine Water through the continued use of
25 Project Magnolia, Staff suggested that an equitable solution lay in amending the
26 Surcharge Tariff to include reasonable recovery for transportation and water costs

1 associated with Project Magnolia.

2 **Q. SO THE AMENDED SURCHARGE TARIFF WAS STAFF'S IDEA?**

3 A. Yes, and it was a very good compromise to Brooke's concern over continuing to
4 provide tens of thousands of dollars worth of water to Pine Water ratepayers for
5 free. Therefore, at Staff's suggestion, the Company submitted a Notice of
6 Amendment to its Water Augmentation Surcharge Tariff to the Commission on
7 January 15, 2004. This did not change Staff's view, however, that Brooke was
8 somehow trying to "extort" money from ratepayers – money that Brooke or any
9 other vendor would be entitled to for services rendered.

10 Of course, as we now know, the Commission disagreed with the
11 compromise. Now, in the face of the Commission's threats Brooke has made
12 another business decision and will continue to transport water through Project
13 Magnolia and subsidize Pine Water's customers.

14 **Q. DOES THIS MEAN THAT THE COMMISSION WAS RIGHT?**

15 A. Not at all. It means we will accept the Commission's charge to "do the right thing"
16 and allow the rate case to be completed.

17 **Q. WILL BROOKE CONTINUE TO SUBSIDIZE WATER SERVICE**
18 **INDEFINITELY?**

19 A. No. However, Brooke has taken the Commission at its word when it made itself
20 clear that this rate case needs to be resolved as soon as possible. Therefore, Brooke
21 has committed to continuing buying water from Strawberry Water and delivering it
22 through Project Magnolia through May 2004. However, if rate relief is not granted
23 before the summer water season commences, which is approximately June 1, 2004,
24 Brooke will have to reevaluate its decision. The same thing is true if rate relief is
25 granted by then but is deemed inadequate to allow Pine Water to pay for water
26 purchased from Strawberry Water and to pay for delivery of such water through

1 Project Magnolia.

2 **Q. SO, BROOKE UTILITIES IS ATTEMPTING TO COERCE A FAVORABLE**
3 **DECISION OUT OF THE COMMISSION?**

4 A. Absolutely not, although I suspect this is exactly what the District and Staff will
5 continue to assert. Frankly, I am amazed that anyone can criticize a company like
6 Brooke for choosing to discontinue the loss of as much as tens of thousands of
7 dollars each month. I am curious what has happened to Staff's view that "goodness
8 deserves to be rewarded."

9 The Commission has found over and over again that we provide adequate
10 water service in Pine, Arizona. See Decision Nos. 62400, 64400, 65435, 65914.
11 The Commission has also noted the vast improvement in water service in Pine since
12 Brooke took over several decaying water systems from Rich Williamson, at Staff's
13 suggestion. For years, Mr. Williamson failed to make any capital improvements or
14 repairs leaving the water systems in awful condition – despite Commission
15 regulation. Water shortages were frequent and outages all too common. For
16 Brooke's trouble, it has lost hundreds of thousands of dollars since acquiring these
17 systems less than 10 years ago. And now, thanks to the District, Pine Water is
18 forced to spend tens of thousands of dollars defending every accounting entry,
19 every operational decision and every regulatory filing the Company has ever made.
20 All that goodness, and very little reward.

21 Brooke invested several years and substantial capital to develop and build a
22 project, at its expense – not the expense of ratepayers – that no one else had
23 attempted and without ever knowing whether the pipeline would get used; and after
24 listening to the so-called "water experts" at Gila County proclaim that the
25 development of Project Magnolia was "premature." Brooke has since delivered
26 some 40 million gallons of totally free water to Pine Water customers, without

1 breaking its promises to the customers of Strawberry Water to not limit the water
2 supply in favor of Pine Water customers. Now, we have Staff's recommendation
3 that Brooke never get paid for any of it. See Bourassa Rj. Exhibit 9; Reiker Sb. at
4 3. It should come as no surprise that we are asking the Commission to reject Staff's
5 efforts to confiscate Brooke's investment and provide Pine Water the financial
6 means to continue to provide the best water service Pine residents have known in
7 decades. Put bluntly, it is the Commission's turn to "do the right thing."

8 **V. WATER SUPPLY ISSUES.**

9 **Q. HOW WOULD PINE WATER LIKE THE COMMISSION TO ADDRESS**
10 **THE WATER SUPPLY PROBLEMS IN PINE, ARIZONA THROUGH THIS**
11 **PROCEEDING?**

12 A. When this application was filed, the Company sought three things from the
13 Commission with respect to the water supply shortage in Pine Water's CC&N.
14 First, recovery of the Company's operating expenses, including a mechanism to
15 recover water augmentation costs actually incurred. This was and is imperative if
16 Pine Water is to avoid water outages. Second, a Water Exploration Surcharge to
17 provide an equitable funding mechanism for water exploration projects. Due to
18 customer opposition, that request was withdrawn. Third, guidance from the
19 Commission.

20 **Q. WHAT SORT OF GUIDANCE CAN THE COMMISSION PROVIDE?**

21 A. No one knows whether there are additional water supplies available for Pine,
22 Arizona. If there are, no one knows for certain where and how deep those
23 additional supplies will be found. If found and available for delivery, no one
24 knows the cost, although it will be substantial. Certainly, against this backdrop, the
25 Commission can provide some guidance on what reasonable and prudent steps Pine
26 Water is expected to take.

1 Q. MR. HARDCASTLE, ARE YOU ASKING THE COMMISSION TO MAKE
2 MANAGEMENT DECISIONS REGARDING SPECIFIC CAPITAL
3 IMPROVEMENT PROJECTS?

4 A. No, although after witnessing its frustration over Brooke's most recent business
5 decision, I would think the Commission would jump at the chance to play a more
6 active role in Northern Gila County water politics and planning. What I really seek
7 though is simple. Right now, under normal operating conditions, including the
8 Commission-imposed Curtailment Tariff, Pine Water we can meet customer
9 demand with water supplies available in Pine, Brooke's deliveries through Project
10 Magnolia and water hauling. As long as the Commission ensures adequate cost
11 recovery, this should continue for the foreseeable future at rates that, while
12 arguably high, reflect the severe water supply limitations in the area.

13 However, some are demanding more. For instance, John Breninger
14 continues to advocate that the Company invest in excess of \$4 million dollars for
15 deep well drilling in the Strawberry Valley. If water is found in these deep wells, it
16 will have to be pumped and delivered into the Pine Water system at significant
17 additional expense. The District wants the Commission to deny rate relief until
18 Pine Water "establishes immediate goals and plans, and supplies meaningful
19 financial resources, in an attempt to find more water to support the service demands
20 and projected growth of the Certificated Service Area." See Jones Sb. at 3. I do
21 not know what the District envisions, but it doesn't sound cheap. Finally, Mr.
22 Ploughe suggests that Pine Water build a one million gallon storage tank, which
23 will cost at least one million dollars.

24 None of these proposed solutions is certain to result in additional water for
25 Pine Water's ratepayers. What if we build a million gallon storage tank and can't
26 keep it filled due to limited water supplies? What if we drill an \$870,000 test well

1 in the Strawberry Valley and no water is found? Is Brooke expected to again
2 forego recovery of and on its investments? And what if, by chance, these efforts
3 are successful beyond our wildest dreams? We have 2000 ratepayers. Is this
4 Commission prepared to saddle them with the costs of drilling, pumping and
5 delivering water from deep wells in the Strawberry Valley? The capital costs on a
6 \$4 million investment, compared to the cost of water delivered through Project
7 Magnolia is more than \$71.00 per 1000 gallons. Mr. Ploughe's one million gallon
8 storage tank would cost ratepayers an additional \$ 200,000 per year in revenue
9 requirement which translates to an approximate 30 percent rate increase over the
10 test year revenues. Is that really a viable option? I do not think it is too much to
11 ask that the Commission shed some light on these difficult questions. If the
12 Commission does not think ratepayers can afford these projects, it should say so
13 before Pine Water makes a commitment from which there is no cheap return.

14 **Q. HAS STAFF ADEQUATELY ADDRESSED THE WATER SUPPLY ISSUE**
15 **FACING THE COMPANY?**

16 A. No. Staff has consistently failed to adequately address this issue in its testimony.
17 Remarkably, Pine Water was ordered to prepare a Water Augmentation Plan as part
18 of this filing, at Staff's recommendation, and they have provided virtually no
19 comment on that plan.

20 **Q. DOES STAFF STATE WHETHER IT BELIEVES ADDITIONAL WATER**
21 **SUPPLIES ARE AVAILABLE FOR CUSTOMERS IN PINE, ARIZONA?**

22 A. After reviewing the District's *Investigation of Groundwater Availability* submitted
23 by Mr. Breninger, Staff engineer Marlin Scott, Jr. concludes that the actual amount
24 of water available in Pine will remain questionable until a test/production well is
25 drilled and tested for sustained flow rate verification. See Surrebuttal Testimony of
26 Marlin Scott, Jr. ("Scott Sb.") at 5. According to Mr. Scott, this well could cost as

1 much as \$870,580, with no guarantee of success. *Id.* at 4.

2 **Q. DID STAFF MAKE A RECOMMENDATION REGARDING WHETHER**
3 **THIS TEST/PRODUCTION WELL SHOULD BE DRILLED?**

4 A. No. Staff does not discuss whether it would be prudent for Pine Water to spend an
5 amount of money that is considerably larger than its existing rate base to drill a test
6 well that may never lead to a viable new water source for the Company's
7 ratepayers.

8 **Q. WOULDN'T THESE TYPES OF COSTS HAVE BEEN FUNDED BY**
9 **APPROVAL OF THE WATER EXPLORATION SURCHARGE INITIALLY**
10 **REQUESTED BY PINE WATER?**

11 A. Yes, in part. However, it would have taken some time before enough funds were
12 collected to constitute "meaningful financial resources" given the magnitude of
13 these types of projects. Of course, every other party and many of our customers
14 vehemently opposed the surcharge, so it was withdrawn from our application.
15 Nevertheless, Staff has had ample opportunity to address the ratemaking impacts of
16 the recommendations set forth by the District and Mr. Breninger. It has simply
17 chosen not to do so. I am not sure we can ever solve the region's water supply
18 problems, but I am absolutely sure we will not be able to do it alone.

19 **Q. HAVE YOU HAD AN OPPORTUNITY TO REVIEW THE SURREBUTTAL**
20 **TESTIMONY OF DISTRICT WITNESS MICHAEL PLOUGHE?**

21 A. Yes. Mr. Ploughe suggests that "newly developed information" shows that drilling
22 in Pine, Arizona *may* lead to a new water source and essentially concludes that the
23 construction of a new one million gallon water storage tank will solve the
24 Company's water supply needs. *See* Surrebuttal Testimony of Michael Ploughe
25 ("Ploughe Sb.") at 4, 6. In advancing these arguments, Mr. Ploughe repeatedly
26 contradicts the recent hydrology study commissioned by the District.

1 Q. DID MR. PLOUGHE PROVIDE ANY EMPIRICAL DATA TO SUPPORT
2 HIS CONCLUSIONS?

3 A. None whatsoever. He even fails to identify the "few exceptions" to his general rule
4 that nearly all water systems in the region experience summer peak demands in
5 excess of water production rates. *Id.* at 3. Nor could he produce any in response to
6 data requests. Instead, Mr. Ploughe relies on the same District study he criticizes to
7 justify his claim that there is more water in Pine, Arizona, although he concedes the
8 authors of the report conclude otherwise. *See* District response to data request 3.11,
9 copy attached hereto as Hardcastle Rejoinder Exhibit 2. Mr. Ploughe's testimony
10 on the availability of water is simply the latest in a long line of contradictory
11 hydrological assessments concerning the Pine-Strawberry, Arizona region.

12 Q. DOESN'T MR. PLOUGHE HAVE A NUMBER OF YEARS OF
13 EXPERIENCE ADDRESSING HYDROLOGY ISSUES ON THE
14 MOGOLLON RIM?

15 A. Mr. Ploughe has worked as the Water Resources Hydrologist for the Town of
16 Payson for sometime. Mr. Ploughe has an incentive to present his views in a
17 manner that preserves optimism over additional water resources on the Rim.
18 Evidence is another thing. Even Mr. Ploughe's discussion of water production for
19 the Town of Payson is not supported by one ounce of empirical data. *See* Ploughe
20 Sb. at 4. More importantly, Mr. Ploughe makes no attempt to explain how water in
21 and under Payson translates into water in and under Pine.

22 Q. WHAT ABOUT MR. PLOUGHE'S SUGGESTION THAT THE CURRENT
23 MOGOLLON RIM WATER RESOURCES MANAGEMENT STUDY
24 SPONSORED BY THE BUREAU OF RECLAMATION REPRESENTS A
25 VIABLE SOLUTION TO PINE WATER'S SUPPLY PROBLEM?

26 A. Mr. Ploughe fails to provide one example where the efforts of any such group in the

1 past has produced one single gallon of water for the people of Pine or Strawberry.
2 In light of such a poor track record, I fail to grasp how Brooke or the Company's
3 participation in this most recent effort can be financially justified. Without the
4 prospect of meaningful results, I will continue to hold that such efforts provide
5 customers a false sense of hope that if someone else spends enough money, a
6 solution to the water shortages will be reached.

7 **Q. DO YOU AGREE WITH MR. PLOUGHE THAT WATER SHORTAGES**
8 **ARE A FUNCTION OF STORAGE CAPACITY?**

9 A. Mr. Ploughe's analysis misses the mark. *See* Ploughe Sb. at 2. Use of storage
10 capacity is directly limited by water production. It does not matter how much
11 storage capacity Pine Water has if it does not have the water production to fill it.

12 **Q. WOULDN'T THE ADDITION OF A ONE MILLION GALLON STORAGE**
13 **TANK MINIMIZE OR ALLEVIATE THE NEED TO HAUL WATER TO**
14 **THE PINE WATER SYSTEM?**

15 A. Even assuming the Company could produce the water to fill such a tank, the answer
16 would still be no. More than doubling Pine Water's existing storage capacity
17 would not even get the Company through a long Fourth of July weekend. A one
18 million gallon water storage tank would likely cost more than \$1 million to
19 construct. This is equivalent to 6,410 loads of water that is bought only when
20 needed, or about 8-10 years of water hauling, using 2003 numbers. Therefore, it is
21 questionable that such an asset would be considered used and useful for regulatory
22 purposes.

23 **Q. IS PINE WATER CURRENTLY IN COMPLIANCE WITH APPLICABLE**
24 **WATER STORAGE REQUIREMENTS?**

25 A. Yes. Mr. Ploughe's recommendation for water storage is in excess, by a
26 considerable margin, of storage requirements applicable to the Company and to

1 which Pine Water has complied. Therefore, it would be difficult for the Company
2 to justify the addition of a new water storage improvement without specific
3 direction from the Commission so that proper financing and cost recovery can
4 occur.

5 **Q. DOES MR. PLOUGHE PROVIDE ANY TESTIMONY ON THE**
6 **RATEMAKING IMPACTS OF CONSTRUCTING A ONE MILLION**
7 **GALLON WATER STORAGE TANK?**

8 A. No, and again in data requests the District failed to provide support, including
9 financial and ratemaking analysis, for its massive storage tank project. See District
10 response to Company Data Request 3.14 and 3.15, copy attached hereto at
11 Hardcastle Rejoinder Exhibit 3.

12 **Q. HAS MR. BRENINGER PROVIDED HIS OWN SURREBUTTAL**
13 **TESTIMONY ON THE ISSUE OF WATER SUPPLY AVAILABILITY FOR**
14 **PINE WATER COMPANY?**

15 A. Yes. Mr. Breninger's general conclusion is the same as it has always been – that
16 water exists north of Pine, Arizona and all the Company has to do is go get it. See
17 Surrebuttal Testimony of John Breninger ("Breninger Sb.") at 1-2. However, like
18 Staff and the District, Mr. Breninger also fails to adequately address the financial
19 impact to Pine Water's ratepayers of his recommendations for deep well drilling in
20 Strawberry.

21 **Q. DO YOU AGREE WITH MR BRENINGER'S CONCLUSION THAT PINE**
22 **WATER HAS NOT BEEN EXCLUDED FROM UNDERTAKING VIABLE**
23 **SOLUTIONS TO ITS WATER SUPPLY NEEDS?**

24 A. Mr. Breninger assertions to the contrary, Pine Water has been excluded from
25 undertaking "viable" solutions to overcome chronic water supply problems,
26 primarily because viability includes considerations of financial impact, operational

1 reality, risk and reward, and most importantly, regulatory authority. Without these
2 functions in place, it is impossible for Pine Water to pursue the solution that lies
3 just beneath the surface, as Mr. Breninger suggests. Mr. Breninger simply fails to
4 grasp the magnitude of the financial impact of his recommendations. *See*
5 *Hardcastle Rb.* at 7-8. Moreover, given Staff's recommendation that the
6 Commission confiscate Brooke's assets and then provide an anemic rate of return,
7 we cannot ignore these realities.

8 **Q. WHAT ABOUT MR. BRENINGER'S "CHALLENGE" TO YOUR**
9 **ASSERTION THAT GROUNDWATER MAY NOT BE LEGALLY**
10 **AVAILABLE EVEN IF FOUND?**

11 A. Mr. Breninger is not qualified to make legal conclusions regarding Arizona water
12 law. *See Breninger Sb.* at 2. At a minimum, numerous legal requirements exist for
13 drilling, building pipelines and general permitting. Neither Brooke nor Pine Water
14 have any idea what other entities with interests in such water supplies, if they exist,
15 would do to protect their rights. Mr. Breninger does not know either.

16 **VI. REJOINDER TO THE DISTRICT.**

17 **Q. DOES THE DISTRICT MAINTAIN ITS POSITION THAT RATE RELIEF**
18 **SHOULD BE COMPLETELY DENIED AT THIS TIME?**

19 A. Yes. *See Jones Sb.* at 3. Apparently, it is the District's position that Pine Water is
20 not entitled to rate relief until the Company satisfies every one of its claims and
21 demands. Or, until the District condemns or otherwise acquires Brooke's assets in
22 Gila County, whichever comes first. Of course, without rate relief soon, it will
23 more likely be the latter. As I testified earlier, Brooke is not going to continue
24 subsidizing water service indefinitely.

25 **Q. WHY DO YOU BELIEVE THE DISTRICT INTERVENED IN THIS**
26 **PROCEEDING?**

1 A. I believe Gila County has hijacked the District, hired several consultants and a
2 lawyer and intervened in this rate case in order to pursue its long-standing agenda
3 against Brooke's operations in Northern Gila County. I believe the only interests
4 the District cares about protecting are those of real estate developers and the
5 potential for a larger tax base.

6 **Q. ISN'T THE DISTRICT SIMPLY ATTEMPTING TO PROTECT THE**
7 **INTERESTS OF RATEPAYERS?**

8 A. That is certainly what the District would like the Commission to believe. *E.g.*,
9 Jones Sb. at 9. However, the District is being administered by Gila County and
10 Gila County made the decision to intervene in this rate case, after the last elected
11 board declined to do so. *See* Hardcastle Rb. at 32-35. At the same time, Gila
12 County is making efforts to condemn Pine Water, as well as the rest of Brooke's
13 interests in the region.

14 **Q. HASN'T THE DISTRICT ALSO SOUGHT DELETION OF PINE WATER'S**
15 **CC&N WHILE THE RATE CASE IS STILL PENDING?**

16 A. Yes, and I am confident this is no coincidence. Apparently, the District's strategy
17 is to convince the Commission to deny rate relief and then when Pine Water can no
18 longer afford to provide water utility services to its customers argue that Pine Water
19 has fallen short of the obligations imposed under its CC&N. Pine Water's assets
20 would most certainly be easier to condemn if the Company lost its CC&N. Clearly,
21 however, we have no intention of giving up our assets and without a CC&N, the
22 Company has no obligation to serve. In the end, therefore, I fear the District's
23 actions will have a negative impact on Pine Water's ratepayers for years to come.

24 **Q. DO OTHERS SHARE YOUR VIEWS REGARDING THE DISTRICT'S**
25 **ULTERIOR MOTIVES?**

26 A. Yes, for one, Mr. Breninger does. He filed a motion in this case seeking to

1 disqualify the District from participating in this proceeding due to lack of adequate
2 authorization and inconsistency with the needs of the District's members. In
3 addition, several customers have recently and publicly voiced grave suspicions
4 about the District's motives. See Hardcastle Rejoinder Exhibit 4.

5 **Q. MR. HARDCASTLE, DO YOU HAVE ANY ADDITIONAL RESPONSE TO**
6 **THE DISTRICT'S SURREBUTTAL FILING?**

7 A. Frankly, I am not sure how to respond. As a practical matter, District witness Jones
8 has challenged every accounting entry, every operational decision and every
9 regulatory filing we have ever made. On top of that, he has repeatedly questioned
10 my personal credibility and integrity. I cannot possibly respond to every allegation,
11 nor should I have to given that the majority of his assertions are either wrong or
12 immaterial.

13 **Q. ARE YOU SUGGESTING THAT PINE WATER'S OPERATIONS AND**
14 **RECORD KEEPING ARE NOT SUBJECT TO SCRUTINY?**

15 A. Absolutely not. Everything we do as a public service corporation is subject to
16 scrutiny. We are a heavily regulated business. What troubles me is the District's
17 exaggeration, distortion and misrepresentation of facts. See, generally, Bourassa
18 Rejoinder at 19-24.

19 **Q. WHAT DO YOU MEAN?**

20 A. For instance, Mr. Jones complains about our operating history. However, we are in
21 compliance with every applicable ADEQ and Commission regulation and
22 requirement. See, e.g., Direct Testimony of Marlin Scott, Jr. at Exhibit MSJ. Mr.
23 Jones' also alleges a seemingly infinite number of so-called accounting errors. Yet
24 Staff, which analyzes hundreds of rate filings and has presumably reviewed all of
25 the testimony in this case, including Mr. Jones' claims, has expressed concern over
26 one book keeping error. Instead, our disagreements with Staff involve larger policy

1 issues, like cost of capital, or treatment of Project Magnolia and deferred taxes.
2 Moreover, despite all of his accusations, Mr. Jones has not identified a single
3 instance where a so-called record keeping error has impacted the amounts paid by
4 customers or the amount to be paid if new rates are improved.

5 **Q. ARE YOU SAYING THAT NONE OF THESE SO-CALLED**
6 **BOOKKEEPING ERRORS OCCURRED?**

7 A. Again, no. Just that they are either exaggerated and distorted or immaterial, or
8 both. Additionally, even where we try to explain, the District persists in its
9 position. Mr. Jones' repeated discussion of the recording of property tax payments
10 is a perfect example.

11 Mr. Bourassa addressed this matter, explaining that the level of property tax
12 expense approved in this proceeding will be based on historic and projected
13 revenue, not historic costs recorded on the Company's books, in or out of the test
14 year. Bourassa Rb. at 17. Staff's agrees with Mr. Bourassa (Fernandez Sb. at 10)
15 and Mr. Bourassa has testified that the erroneous recording of property tax
16 payments is of no consequence to the setting of rates in this proceeding.
17 Nonetheless, Mr. Jones raises the issue again in his surrebuttal, again without
18 identifying any negative impact on ratepayers. *See Jones Sb. at 5.*

19 **Q. CAN YOU PROVIDE ANOTHER EXAMPLE?**

20 A. Yes. Throughout this proceeding, the District has alleged that Pine Water has a
21 major violation of ADEQ regulations because it had not filed its consumer
22 confidence reports. *See District's Motion to Compel (December 10, 2003) at 10.*
23 After this was first raised, the Company provided the District with copies of those
24 filings showing that they were timely filed with ADEQ. *See Pine Water Opposition*
25 *to Motion to Compel (December 19, 2003) at Exhibit 5.* Rather than confirming
26 ADEQ's error, if it still had doubt, the District continues to allege that these filings

1 were not timely made. And worse, as seen in the following data request response,
2 the District cites this example as a basis to question our accounting and assert that
3 the Commission should question my credibility:

4 #4.1-15 Incorrect Statements Related to Failure of Water
5 Quality/Operating Issues/Reporting Issues: PWCo and
6 SWCo both failed to submit required Consumer Confidence
7 reports (classed as a "major" violations) to ADEQ and they
8 did not report that fact for PWCo at Interrogatory 18. Again,
this type response goes to witness credibility and brings into
question cost of necessary operational controls or procedures.
(District Response to Company Data Request 4.1-15, copy
attached hereto as Hardcastle Rejoinder Exhibit 5).

9 The District knows full well that Pine Water timely made the subject filings with
10 ADEQ. Yet, they perpetuate the misrepresentation that Pine Water's failure
11 resulted in a major violation.

12 **Q ARE THEY ANY OTHER SPECIFIC PORTIONS OF MR. JONES'**
13 **TESTIMONY YOU WISH TO RESPOND TO AT THIS TIME?**

14 A. Yes, there are a couple other points I wish to address. One involves Mr. Jones'
15 claim that my calculation of the cost of long term solutions to inadequate water
16 supplies at \$100-\$500 per month is merely a scare tactic aimed at discrediting the
17 District. See Jones Sb. at 11. In response, Mr. Jones also claims that for less than
18 \$10 per month per parcel water will magically appear where it did not exist before.
19 *Id.* No evidence is offered to support this claim. In any case, my calculation not a
20 scare tactic – it is the reality facing the Company's ratepayers if Pine Water were to
21 pursue Mr. Breninger's recommendations to drill for water in the Strawberry
22 Valley.

23 **Q. WHAT ABOUT MR. JONES' ACCUSATION THAT PINE WATER HAS**
24 **BLOCKED THE DISTRICT FROM GAINING ACCESS TO BROOKE**
25 **UTILITIES' BOOKS AND RECORDS.**

26 A. According to Mr. Jones the Commission must order Brooke Utilities' books and

1 records opened up in order to ensure that Brooke can keep Pine Water afloat. *Id.* at
2 11. I understood the purpose of rate relief is to ensure that shareholders do not have
3 to subsidize service by providing rates that allow for the recovery of reasonable
4 operating expenses and a fair return on the value of the utility property devoted to
5 public service.

6 In any event, Pine Water has consistently objected to the District's
7 discovery requests that seek access to Brooke's books and records based on
8 relevancy and jurisdiction. On January 15, 2004, Judge Nodes sustained Pine
9 Water's objections. Unfortunately, Mr. Jones ignores Judge Nodes' decision and
10 continues to argue that access to Brooke's books and records is warranted in light
11 of his worn-out accusations about significant errors, misleading statements and
12 inconsistencies. *Id.* at 12. His testimony is evidence that the District will continue
13 to waste the Commission and Pine Water's valuable time and resources to continue
14 its fishing expedition.

15 **VII. PUBLIC COMMENT SESSION.**

16 **Q. DID YOU ATTEND THE COMMISSION'S PUBLIC COMMENT SESSION**
17 **IN PINE, ARIZONA ON DECEMBER 8, 2003?**

18 **A.** Yes, and a number of questions/issues were raised that I would like to address.

19 **Q. WHY ARE YOU ADDRESSING THESE QUESTIONS/ISSUES IN YOUR**
20 **REJOINDER TESTIMONY?**

21 **A.** For two reasons. First, we are concerned that our customers do not have accurate
22 information regarding the Company's application, its operations and the water
23 supply situation we deal with every day. Second, we received a letter on December
24 9, 2003 from Commissioner Hatch-Miller asking the Company to respond to 8
25 separate questions raised during the public comment session. For convenience, I
26 have attached a copy of Commissioner Hatch-Miller's letter to my rejoinder

1 testimony as Hardcastle Rejoinder Exhibit 6.

2 **Q. REFERRING TO THE FIRST OF COMMISSIONER HATCH-MILLER'S**
3 **QUESTIONS, "WHY ISN'T THERE A MORATORIUM ON NEW**
4 **HOOKUPS UNTIL RELIABLE WATER SOURCES ARE SECURED?"**

5 A. The issue of a moratorium on new water connections in Pine Water is has long and
6 controversial history that dates back to the late 1980's. The number of allowed
7 water connections has varied over years from zero per month to the present level of
8 twenty-five water meters per month, which was unanimously approved by the
9 Commission. See Decision No. 64400 (Jan. 31, 2002). At that time, the
10 Commission realized, and rightly so, that much of the criticism of Pine Water
11 coming from the community, and especially Gila County, was related to their
12 charge that Pine Water was "unable to serve" new connections pursuant to the
13 Commission-imposed moratorium against further connections. See Decision No.
14 65435 (Dec. 9, 2002). In the end, it became clear that as long as Pine Water was
15 precluded from making new connections, Gila County would carve up Pine Water's
16 CC&N by forming water improvement districts.

17 **Q. BUT IF PINE WATER CANNOT SERVE WHAT IS WRONG WITH**
18 **ANOTHER PROVIDER BEING FORMED?**

19 A. The reason for the moratorium was a lack of available water supplies due to the
20 prevailing hydrology. The creation of separate entities under the authority of Gila
21 County does not bring more water to the equation. It merely allows more straws in
22 the same deficient aquifer. Thus, the Commission determined that if Pine Water
23 was not allowed some limited authority to install new water connections that the
24 proliferation of water improvement districts by Gila County would place the water
25 supply to existing customers very much in jeopardy.

26 **Q. REFERRING TO THE SECOND OF COMMISSIONER HATCH-**

1 **MILLER'S QUESTIONS, "WHY SHOULD CUSTOMERS BE REQUIRED**
2 **TO PAY A BASE MONTHLY SERVICE CHARGE DURING TIMES WHEN**
3 **NO WATER IS AVAILABLE TO THEM?"**

4 A. From a ratemaking standpoint, a utility's water system infrastructure is based on
5 peak water demands, not minimum demand. The water system exists in the
6 anticipation that customers will use water when needed and it must be able to
7 deliver as much water as needed at any given time, although it is sometimes limited
8 by available water. In addition to the water system infrastructure available on
9 demand, operating costs such as salaries and wages, employee benefits, rents,
10 insurance, telephone, etc., must be paid. The utility must pay these expenses
11 regardless of the number gallons sold to customers. Base rates (monthly
12 minimums) generally do not cover the fixed costs of a utility. In fact, in many
13 cases, base rates (monthly minimums) cover less than two-thirds of the costs the
14 utility must pay regardless of the gallons sold. Paying the monthly minimum is
15 akin to making auto loan payments, auto insurance payments, and annual auto
16 registration fees. These cost must be paid regardless of whether you drive your car
17 or not.

18 **Q. REFERRING TO THE THIRD OF COMMISSIONER HATCH-MILLER'S**
19 **QUESTIONS, "WHY SHOULD CUSTOMERS RESIDING IN AREAS**
20 **THAT HAVE ADEQUATE WATER PRESSURE, SUCH AS PORTAL III,**
21 **BE REQUIRED TO PAY CHARGES FOR HAULING ADDITIONAL**
22 **WATER SUPPLIES?"**

23 A. There are a number of reasons. First, as the District's *Investigation of Groundwater*
24 *Availability* shows, the water supply is very fragile throughout Pine Water's CC&N
25 and no area is exempt from the need for augmented water supplies because
26 customer demand on an area-by-area basis cannot be predicted with any certainty.

1 These augmented water supplies are available to ALL Pine Water customers
2 because the delivery infrastructure is interconnected. There is no way to
3 differentiate water deliveries to Pine Water customers by area or subdivision, at
4 least not without separate tariff and pricing structures, which would lead to
5 regulatory confusion, administrative melt down and intra-service area
6 discrimination.

7 **Q. ARE THERE OPERATIONAL ADVANTAGES ASSOCIATED WITH AN**
8 **INTERCONNECTED SYSTEM?**

9 A. Yes. A water system that is interconnected in a "loop" fashion is far more reliable,
10 efficient, and cost effective than a "dead end" system where water cannot circulate
11 throughout the system. For example, a "looped" system prevents problems like
12 adequate water storage facilities from being required in a specific subdivision
13 because sources of water and water storage can be utilized from other areas of the
14 water system. Moreover, the fragility of Pine Water's supply is, at times, so critical
15 that management must include the ability to "move" water from one area of the
16 water system to another using the network of pipes and infrastructure. The ability
17 to "move" water through the use of differentiated pressure zones in the water
18 system is a key component to keeping customers supplied with water throughout
19 periods of peak demand.

20 **Q. REFERRING TO THE FOURTH QUESTION POSED BY**
21 **COMMISSIONER HATCH-MILLER, "HOW CAN THE COMPANY**
22 **BETTER COMMUNICATE THE STATUS OF ITS WATER SUPPLY TO**
23 **ITS CUSTOMERS IN AN UNDERSTANDABLE, FACTUAL AND TIMELY**
24 **MANNER?"**

25 A. That is a good question. It is also a fair question, although difficult to answer. We
26 have a substantial electronic mailing list, over 2000 names, and provide information

1 through that medium on a regular basis. There are also signs (five large signs
2 posted for both directions along Hwy 87) and postings to advise of changes in the
3 restrictions under the Commission-imposed Curtailment Tariff. We have a toll free
4 number and a call center open 9am-3pm Monday through Friday, with emergency
5 services available 24 hours a day, 7 days a week. Pine Water recently established a
6 2nd toll-free Pine information line in response to one of the requirements in the Pine
7 meter modification order. The Company has also voluntarily, under no direction by
8 the Commission or any other regulatory agency, mailed notices in late spring to
9 each customer in Pine reminding them of the rules of our water conservation
10 program, and requesting that they "use water wisely" in the upcoming summer
11 months. In short, customers that want information can get it in a timely manner.
12 But how much information is sufficient?

13 Through the years, Pine Water has produced community brochures,
14 conducted meetings, participated in regional water study groups, and met with
15 hundreds of customers individually to discuss the nature of the local water supply.
16 In fact, in 2002 Pine Water commissioned a professional study of the area by a
17 geohydrologist that defined water flows and confirmed the deficient natural water
18 supply of the area. See Direct testimony of Robert T. Hardcastle ("Hardcastle Dt.")
19 at Direct Exh. A. Water issues in Pine are largely technical and complex topics that
20 require significant background and experience to meaningfully interpret and
21 understand. There have been no less than six or seven other studies of the area
22 water supply dating back to the 1960's that discuss the nature of the local water
23 supply and the deficiencies that exist. The information is available to all customers
24 of the area wanting to be more knowledgeable in the area of water supplies but it is
25 not easy to understand.

26 For many years Pine Water has advocated that local real estate agents and

1 brokers fully explain the area water supply problems and deficiencies through
2 referral to one of these water supply studies. In that way prospective property
3 owners would be fully informed as to the actual local conditions instead those of
4 the "puffery" common in sales of real property. Virtually all new subdivisions
5 have received a finding of water inadequacy from ADWR for the last thirty years.
6 *Investigation of Groundwater Availability* at 7. It is very hard to combat the
7 misinformation that those with their own agenda, sales from real property and taxes
8 for the County, have spread throughout the community.

9 **Q. DOES PINE WATER HAVE A CUSTOMER EDUCATION PROGRAM?**

10 A. We have proposed one in this proceeding. See Hardcastle Dt. at Direct Exh. C.
11 Even though the Commission ordered us to file this proposal with this rate
12 application, no other party, including Staff, has addressed the issue.

13 **Q. HOW DO YOU RESPOND TO COMMISSIONER HATCH-MILLER'S**
14 **FIFTH QUESTION?**

15 A. In his fifth question to the company, commissioner hatch-miller asks, "is the
16 company investigating new groundwater sources? Is the statement "there are no
17 new groundwater sources available" factual? Is a groundwater resource study
18 available to pine residents?"

19 As stated above, our 2002 study is available to the public and was attached
20 to my direct testimony in this docket. The recent comprehensive study
21 commissioned by the District was filed in this docket by Mr. Breninger and is also
22 publicly available. Both of these documents support the conclusion that there are
23 no new groundwater resources in Pine, Arizona and, as Staff Engineer Scott
24 testified, the availability of water supplies in other areas such as the Strawberry
25 Valley remains questionable. See Scott Sb. at 4-5.

26 Nevertheless, Pine Water has plans to explore for additional local water

1 supplies in its Strawberry Water system before the first of June of this year.
2 Additionally, Pine Water has consistently expressed interest in new sources of
3 "shared water" through water sharing agreements with Pine residents that have
4 private water sources with excess supplies coupled with acceptable water quality
5 testing results that might be utilized by the general community. Pine Water's
6 exploration of new water sources is tempered by the realities of "economically
7 viability." As Mr. Scott also recognizes, for example, a test/production well in the
8 Strawberry Valley will cost as much as \$870,000, and may not succeed in
9 producing water for Pine Water customers. Is the Commission ready to saddle
10 ratepayers with the burden of full cost recovery for such "exploration"?

11 **Q. BUT ISN'T PINE WATER OBLIGATED TO EXPLORE FOR NEW**
12 **WATER RESOURCES IF THAT IS WHAT IT TAKES TO PROVIDE**
13 **ADEQUATE SERVICE?**

14 A. Pine Water has not had a water outage in nearly 2 years. Can anyone say that about
15 the prior operators of this system? Will the District be able to make the same claim
16 if it takes over the water system? I do not know about the latter, but I do know Pine
17 Water has provided adequate service to its customers given the prevailing
18 hydrology, which the Company did not create and do not control. If the
19 Commission agrees that more should be done to address the water shortage, despite
20 the significant risk and substantial uncertainty, it must provide direction and ensure
21 that adequate cost recovery mechanisms are in place.

22 **Q. CAN YOU COMMENT ON THE UNCERTAINTY INVOLVED IN**
23 **EXPLORING FOR NEW WATER SOURCES?**

24 A. I have already discussed the uncertainty associated with Mr. Breninger's massive
25 deep well project in the Strawberry Valley. Similar concerns exist more locally as
26 well. Throughout the Pine area there are dozens of private water wells that have

1 minimal production of 10 gallons per minute or less. It is not uncommon to find
2 some private water wells that produce three or four gallons of water per minute.
3 Those sources of water exist and function well enough for private users with
4 limited personal demand but may be every bit as expensive to explore and develop
5 as a well with far greater production, including the additional cost associated with
6 the stringent water quality testing requirements. Such a well might be "used and
7 useful" to a private water user but for a commercial water company like Pine Water
8 such a water well is not considered "economically viable." In other words, low
9 production wells like these cannot produce enough water on a sustained basis to
10 pay for the costs related to exploratory, drilling, development and water delivery.

11 For example, a well producing 5 gallons per minute would provide daily
12 revenues of \$18 per day, less the costs of electricity, testing, monitoring, water
13 treatment, and management. Such wells cannot require static water levels that are
14 just as deep in the ground as wells that produce far more water. In many cases, the
15 costs of lifting the water from such depths can exceed the revenue available through
16 water sales. The net revenues available to Pine Water from such a well are so small
17 that it is not considered to "economically viable" because the costs of development
18 and operation exceed the available revenues.

19 **Q. IS THIS THE REASON WATER EXPLORATION IS ALSO RISKY?**

20 A. Exactly, and if Mr. Reiker really believes Brooke does not consider these risks
21 before making capital investment in exploring new water resources for Pine Water
22 because it has a diversified investment strategy he is truly mad. *See Reiker Sb.* at
23 28-37. We do consider these risks and we find Mr. Reiker's recommended 9%
24 return on equity laughable and confiscatory given the extreme risks we face every
25 day on the Rim.

26 **Q. REFERRING TO THE SIXTH OF COMMISSIONER HATCH-MILLER'S**

1 **QUESTIONS, "HAS THE COMPANY DRILLED ANY NEW WELLS OR**
2 **DEEPENED EXISTING WELLS IN THE PAST THREE YEARS? DOES**
3 **THE COMPANY PLAN TO DRILL NEW WELLS OR DEEPEN EXISTING**
4 **WELLS IN THE IMMINENT FUTURE?"**

5 A. Yes. In late 2000 and early 2001, the Company Pine Water explored three
6 prospective new sources of water in Pine, Arizona. In each case, water was either
7 very limited or not found at all. Consequently, these newly explored water wells
8 had to be abandoned.

9 In contrast, three new water wells in the Strawberry were developed in
10 conjunction with the development of Project Magnolia in late 2000 and early 2001.
11 All of these wells were determined to be "economically viable" and remain in
12 production today. Water is available to Pine Water customers through the use of
13 water augmentation sources or Project Magnolia. In fact, Pine Water's ratepayers
14 have been getting free water from these wells for the past three years and counting.
15 There are also plans to drill three new wells in Strawberry in 2004 with the hopes
16 that discovered production can be made available through Project Magnolia or
17 other water augmentation procedures.

18 **Q. WILL THE COMPANY UNDERTAKE THIS SO-CALLED DEEP WELL**
19 **DRILLING TO LOOK FOR WATER IN THE STRAWBERRY VALLEY?**

20 A. Yes, if the Commission believes this is a prudent use of ratepayer money and
21 ensures a fair return on the investment, even if no additional water is located that
22 can be delivered to Pine, Arizona. Of course, in evaluating this issue of prudence,
23 the Commission will have to consider that deep wells are not only more uncertain
24 and costly to drill, they are far more expensive to operate due to the increased
25 pumping costs. In addition, expensive delivery systems like Project Magnolia will
26 have to be utilized to deliver water from the Strawberry Valley to Pine. We are

1 talking about millions of dollars and staggering rate increases to Pine Water's
2 ratepayers.

3 **Q. CAN EXISTING WELLS BE DEEPENED TO SEARCH FOR ADDITIONAL**
4 **WATER?**

5 A. There is, I believe, a misconception that significant water supplies are available at
6 deeper and deeper depths in Pine, and maybe even in Strawberry. Although not
7 impossible, Pine Water believes such sources are highly unlikely based on the
8 geology of the area as confirmed by numerous private and public water studies.
9 Therefore, for example, water discovery in Pine-Strawberry is not simply a matter
10 of deepening an existing water well. In fact, wells in the area are not usually drilled
11 "deep" because of the cavernous complexity of the areas geology. The risks of
12 deepening wells include loss of existing water production, which would exacerbate
13 an already deficient water supply.

14 **Q. ANOTHER CUSTOMER AT THE PUBLIC COMMENT SESSION**
15 **COMPLAINED THAT THE COMPANY HAD DRILLED THREE NEW**
16 **WELLS MAKING THE WATER SUPPLY PROBLEM WORSE IN HIS**
17 **AREA. IS THAT CORRECT?**

18 A. I am unaware of where these wells are, who drilled them or what results were
19 achieved so I cannot adequately address the customer's comments. However, it is
20 important to note that the geology under Pine is primarily made up of fractured
21 rock. If you are fortunate enough to drill a well in one of the fractures, you may
22 discover water. You might have a completely different result if you were to
23 relocate the drilling process fifteen or twenty feet in any direction. Thus, it is
24 certainly possible, although unlikely, that other shared water sources in the
25 immediate area would be affected. For this reason, it is our operating policy not to
26 explore for water within 300-500 feet from another well, unless both wells are

1 owned or used by us.

2 Q. IS THERE ANY RESTRICTION ON WELL DRILLING IN THE PINE-
3 STRAWBERRY AREA?

4 A. Presently, the only restrictions on drilling wells are (a) property ownership or
5 access; (b) permits required from the Arizona Department of Water Resources; (c)
6 sufficient capital; and (d) the availability of well drilling firms.

7 Q. COMMISSIONER HATCH-MILLER'S SEVENTH QUESTION ASKS
8 "WOULD ADDED STORAGE CAPACITY ALLEVIATE WATER SUPPLY
9 PROBLEMS, ESPECIALLY DURING TIMES OF LIKELY DISRUPTIONS
10 (I.E., HOLIDAYS, WEEKENDS, SUMMERTIME)?"

11 A. As explained above in response to Mr. Ploughe's testimony (section V, *supra*, at
12 25), the answer is no, although that has not stopped the debate over this question,
13 often raised by those without experience in the area's water shortage problems.
14 First, Pine Water's required water storage considerably exceeds requirements. Are
15 expensive additional storage tanks really a prudent investment? Second, the
16 problem in Pine is one of production – not storage. It does not matter how much
17 water storage exists if sufficient water production is not available to fill the tanks.
18 Stored water must be cycled or "turned over" approximately every twenty-four
19 hours, although in some cases treated water can be stored for a little longer. If Pine
20 Water's source of supply produced 100 gallons per minute during the peak demand
21 periods and it had an additional two million gallons of water storage, it would
22 require almost two weeks to fill the water storage facilities and we simply do not
23 have sufficient production for that. In other words, what is needed is more water
24 production. Then the issue of water storage becomes moot.

25 Q. ANOTHER CUSTOMER MENTIONED THE PINE RESERVOIR
26 PROJECT. IS THAT PROJECT STILL UNDER CONSIDERATION?

1 A. To a lessening degree, "yes". However, the Pine Reservoir Project cannot escape
2 the pull of economic reality. This is another million dollar project, at least. At
3 present, the rates charged to customers in the Pine Water could not cycle enough
4 water through the reservoir to come close to paying for the facility. Either the "turn
5 over" of the water stored on the facility would have to be dramatically increased or
6 the rate charged customers for water stored in the facility would have to be greatly
7 increased or a combination of both. Meanwhile, the Option Agreement for the Pine
8 Reservoir remains in place and is available through 2006 subject to renewal.

9 **Q. REFERRING TO THE EIGHTH OF COMMISSIONER HATCH-MILLER'S**
10 **QUESTIONS, CAN METERS BE READ AT THE SAME TIME EACH**
11 **MONTH SO A CUSTOMER'S BILL DOES NOT VARY FROM MONTH**
12 **TO MONTH?"**

13 A. It depends on the amount of investment that is available to be made. Technology
14 exists today to read water meters simultaneously in fifteen-minute increments.
15 Thus, to answer Commissioner Hatch-Miller's question, "yes". However, the cost
16 to retrofit the water meters in Pine with remotely polled water meters is
17 prohibitively expensive and would require two or three years to complete. I also
18 wish to note that customer water meters can be read within 25-35 days from the last
19 meter reading under Commission regulation. *See A.A.C. R14-2-409.A.1.*

20 **Q. DO YOU HAVE ANY OTHER COMMENTS TO MAKE REGARDING**
21 **QUESTIONS/ISSUES RAISED DURING THE PUBLIC COMMENT**
22 **SESSION?**

23 A. Yes. There seems to be a great deal of uncertainty regarding the Company's water
24 hauling surcharge. For one thing, one customer claimed that the Company
25 collected approximately \$600,000 per month during the summer of 2003 from this
26 surcharge. This is inaccurate. For the entire year, Pine Water collected

1 approximately \$87,500 from the surcharge. I would also note that customers
2 believing that the Company makes a "profit" for hauling water are wrong. Under
3 the Commission approved surcharge mechanism, Pine Water recovers only its
4 actual costs for water hauling.

5 **Q. ANOTHER CUSTOMER COMPLAINED THAT THE COMPANY HAD**
6 **RECEIVED NUMEROUS RATE INCREASES SINCE BROOKE**
7 **UTILITIES ACQUIRED THIS SYSTEM. IS THAT CORRECT?**

8 **A.** No, setting aside the Commission's approval of the water hauling surcharge in May
9 2003, there has only been one general rate increase for this system since Brooke
10 acquired it in the mid-1990's. *See* Decision No. 62400.

11 **Q. THE COMMISSION ALSO HELD A PUBLIC COMMENT SESSION IN**
12 **PHOENIX ON DECEMBER 15, 2003, DURING WHICH ONE CUSTOMER**
13 **ASKED WHY THE COMPANY DOESN'T OWN ITS OWN WATER-**
14 **HAULING TRUCKS. HOW DO YOU RESPOND?**

15 **A.** Pine Water has some limited capacity to haul water. Still, it is less expensive to
16 Pine Water ratepayers for us to contract with people engaged in the business of
17 water transport than to operate such facilities ourselves.

18 **Q. THERE WERE ALSO QUESTIONS RAISED CONCERNING ADEQUATE**
19 **PRESSURE FOR FIRE FLOW. DOES THE COMPANY PROVIDE FIRE**
20 **FLOW SERVICE?**

21 **A.** In accordance with the Arizona Administrative Code R14-2-407.E, the Company is
22 required to provide a minimum delivery pressure of 20 psi at the customer's meter
23 or delivery point, which we do. There is no further requirement imposed on the
24 Company by Commission rule or regulation or by any other governmental entity
25 with applicable jurisdiction. In order to provide greater pressures, setting aside the
26 water supply issues, we would need to make several costly upgrades to the system.

1 Q. ANOTHER CUSTOMER ASKED WHETHER PINE WATER HAS LOCAL
2 REPRESENTATIVES WORKING IN OR AROUND THE PINE, ARIZONA
3 AREA. DOES PINE WATER MAINTAIN A LOCAL PRESENCE IN THE
4 PINE, ARIZONA AREA?

5 A. Yes. Full-time water operations people are based in Pine. In addition, Brooke has
6 retained the services of a public relations consultant who lives in the area and
7 regularly works with customers in the area answering questions and providing
8 important information.

9 Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?

10 A. Yes, except that I wish to point out that our silence concerning specific portions of
11 the surrebuttal testimony of any other witness should not be taken and acquiescence
12 or agreement. Frankly, there was a great deal of immaterial testimony by other
13 parties, specifically the District and it is simply not possible to address all of it here.
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16

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EXHIBIT

1

**A CULTURAL RESOURCES SURVEY OF A 1.9-MILE
PROPOSED WATER PIPELINE BETWEEN PINE AND
STRAWBERRY, ARIZONA**

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Revised by [signature]

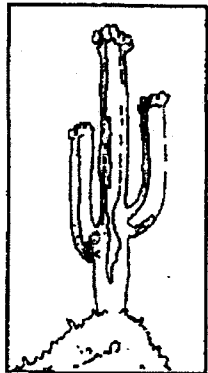
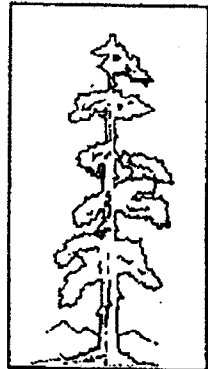
Prepared for

BROOKE UTILITIES, INC.



Prepared by

**SWCA, INC.
Environmental Consultants**



November 13, 1997



A Cultural Resources Survey of a 1.9 Mile Proposed Water Pipeline
Between Pine and Strawberry, Arizona.

Prepared for

Mr. Robert T. Hardcastle, President
BROOKE UTILITIES, INC.
3101 State Road
Bakersfield, CA 93308

Prepared by

James M. Potter, Ph.D
Archaeologist

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SWCA Project No. 30-72296
SWCA Archaeological Report No. 97-194

Tonto National Forest Permit No. 4306-12
Arizona State Museum Annual Permit No. 1997-03BL

November 13, 1997

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INTRODUCTION

At the request of Brooke Utilities, Inc., SWCA, Inc., Environmental Consultants (SWCA) conducted a cultural resources survey along a 1.9-mile segment of Arizona Department of Transportation (ADOT) easement corridor along State Route (SR) 87 between Pine and Strawberry, Arizona. The survey was done on October 31, 1997 in compliance with the National Historic Preservation Act. The survey area consisted of a 100-foot right-of-way (ROW) for a proposed water pipeline extending from Strawberry Hollow northwest to Strawberry Knolls (Figure 1). The project pipeline will impact only 30 feet of the 100-foot wide survey area, thus providing a sufficient bufferzone. For about half of its length, the proposed pipeline follows the historic Pine-Strawberry Road (Forest Highway 9); for the other half it parallels the ROW fence for SR 87. The survey objective was to record and mark for avoidance any significant cultural resources that would be impacted by the proposed water line. The survey was conducted under the provisions of Tonto National Forest Permit No. 4306-12, and Arizona State Museum Annual Permit No. 1997-03BL. The fieldwork was conducted by James M. Potter.

The project area is located along SR 87 from approximately milepost 269 to 271 between Pine and Strawberry on Tonto National Forest (TNF). The legal description for the project area is T12N, R8E, Sections 22, 23, and 26 (Pine, Arizona, 7.5 minute series, 1973).

Following the TNF Region 3 Cultural Resources Handbook (1987), archaeological sites were defined by the presence of (1) one or more feature; (2) one formal tool if associated with other cultural materials of more than one formal tool; and (3) an occurrence of cultural material in a density of at least 10 items per 100 m², or a single type of artifact or material in a density of at least 25 items per 100 m². The observation of cultural remains not meeting these criteria were recorded as isolated occurrences (IO).

As a result of the survey, SWCA located and recorded a previously unrecorded segment of historic Forest Highway 9, AR-03-12-06-2028/AZ U:8:60(ASM), extending from milepost 269 to 270. The road segment consisted of a single-lane dirt road representing the latest construction phase of the highway (ca. 1945-60). The later construction phase appears to have obliterated any earlier roadbeds, such as the 1915-1919 roadbed and the Mormon wagon road built between 1875 and 1882. A 1969 highway marker located at the northern most point of the historic road segment in the project area suggests that improvements to this road continued well into the late 1960s. In addition, a historic artifact scatter that was associated with the southernmost section of the historic road segment was recorded. Field recording of this site exhausted all potential to yield significant archaeological and historic information. Consequently, it is not recommended that this site be considered eligible for the National Register of Historic Places (NHRP). No isolated occurrences were noted in the project area.

ENVIRONMENTAL SETTING

The project area is situated within the mountainous Transitional Zone located between the Basin and Range landscape to the south and the Colorado Plateau to the north. Possessing steep slopes that overlook Pine Creek and several smaller drainages Strawberry Mountain and the surrounding highlands are at the extreme northern edge of the Tonto Basin Physiographic area. The project area follows a relatively narrow drainage between Strawberry Mountain and the Mogollon Rim. The elevation of the project area ranges from 5600 to 6000 ft (1707-1829 m). Vegetation identified in the project area is representative of the Great Basin Conifer Woodland Vegetative Community within the Forest Formation

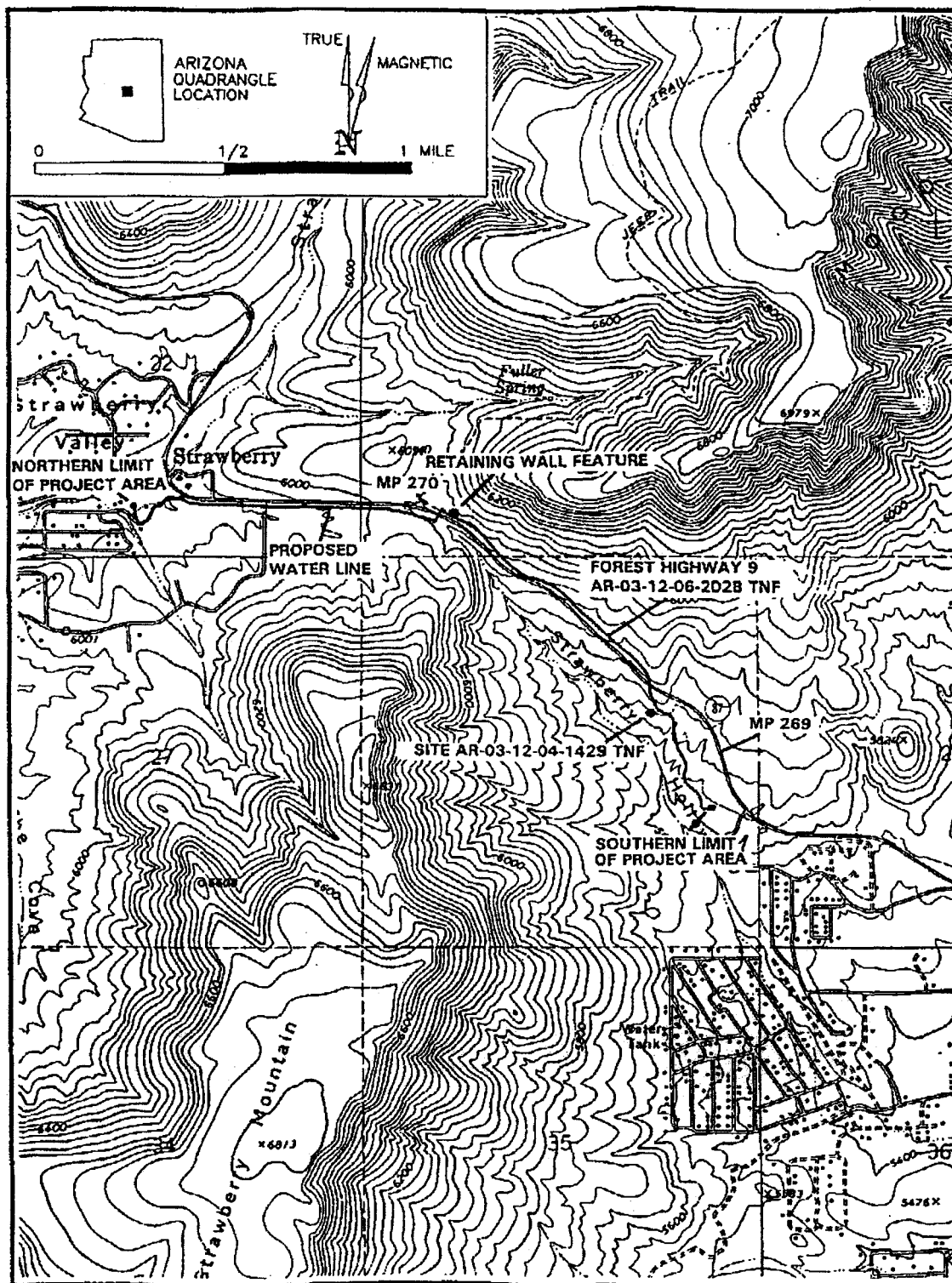


Figure 1. Location of project area. Base map is USGS 7.5 minute quadrangle Pine, AZ 1973.

(Brown 1994). Species present in the area include juniper (*Juniperus* sp.), pinyon (*Pinus edulis*), ponderosa pine (*Pinus ponderosa*), live shrub oak (*Quercus tubinella*), manzanita (*Arctostaphylos* sp.), catclaw mimosa (*Mimosa biuncifera*), and assorted unidentified grasses and annuals.

PREVIOUS RESEARCH

Previous research in and around the project area has been limited primarily to small archaeological surveys and historic inventories. Archaeological surveys done within or immediately adjacent to the project area include a survey performed by Arizona State University for a federal land exchange in 1986, a survey completed by Tonto National Forest in 1992 for the Wooffid Timber Sale, and a survey conducted by the Tonto National Forest for ADOT in 1995.

In 1986, at the request of the Federal Land Exchange, Inc, the Office of Cultural Resource Management at Arizona State University conducted an archaeological survey in and around the project area. No acreage value was given in the report. Within the survey block included in the current project area (Block D), ASU archaeologists visited and rerecorded one previously recorded site, AZ O:11:1(ASU) (Figure 2). No additional sites were found. Site AZ O:11:1(ASU) is located on a small knoll located approximately 700 m to the east of SR 87, and this site was estimated to contain between three and eight rooms enclosed by a low enclosing wall. The site dates between A.D. 900 and 1300 (Lindauer 1986).

In 1992 one historic and 10 prehistoric sites were recorded by the Tonto National Forest around the town of Strawberry as part of the Wooffid Timber Sale (Gernick 1992). The three survey blocks that are closest to the current project area are plotted on Figure 2. One site, AR-03-12-04-1194, is located within these survey blocks (Figure 2). This historic site consists of a dispersed scatter of cans, glass, and other domestic trash which may be associated with early logging activities. All of the prehistoric sites were sherd and/or lithic scatters dating to sometime between A.D. 900 and 1100, and they were located at least 1 mile from the current project area.

Also in 1992, Plateau Mountain Desert Research conducted an archaeological survey for ADOT (ADOT Contract No. 90-40) of six land parcels along SR 87 between Payson and Strawberry (Weaver 1992). One parcel fell within the current project area, but no cultural resources were identified (Figure 2).

The 1995 ADOT survey conducted by the Tonto National Forest consisted of a total of 0.361 acres of easement across SR 87's ROW to private land (TNF #95-51) (Figure 2). This project recorded three historic sites, including a historic segment of SR 87 (Forest Highway 9) (AR-03-12-04-1286), a possible historic horseback/skid trail (AR-03-12-04-1287), and a segment of the Old Mormon wagon road (AR-03-12-04-1288). All of these sites were identified from 1946 air photos and from the 1919 and 1933 TNF maps (Morgan 1995).

In 1997, several miles south of the project area, Archaeological Research Services, Inc., conducted a cultural resources survey for ADOT along a 2.65-mile segment of SR 87 between mileposts 243 and 246, four miles south of Payson. One historic site was identified. The site consists of six segments of the historic Forest Highway 9, AR-03-12-06-2028/AZ U:8:60(ASM) (Barz 1997).

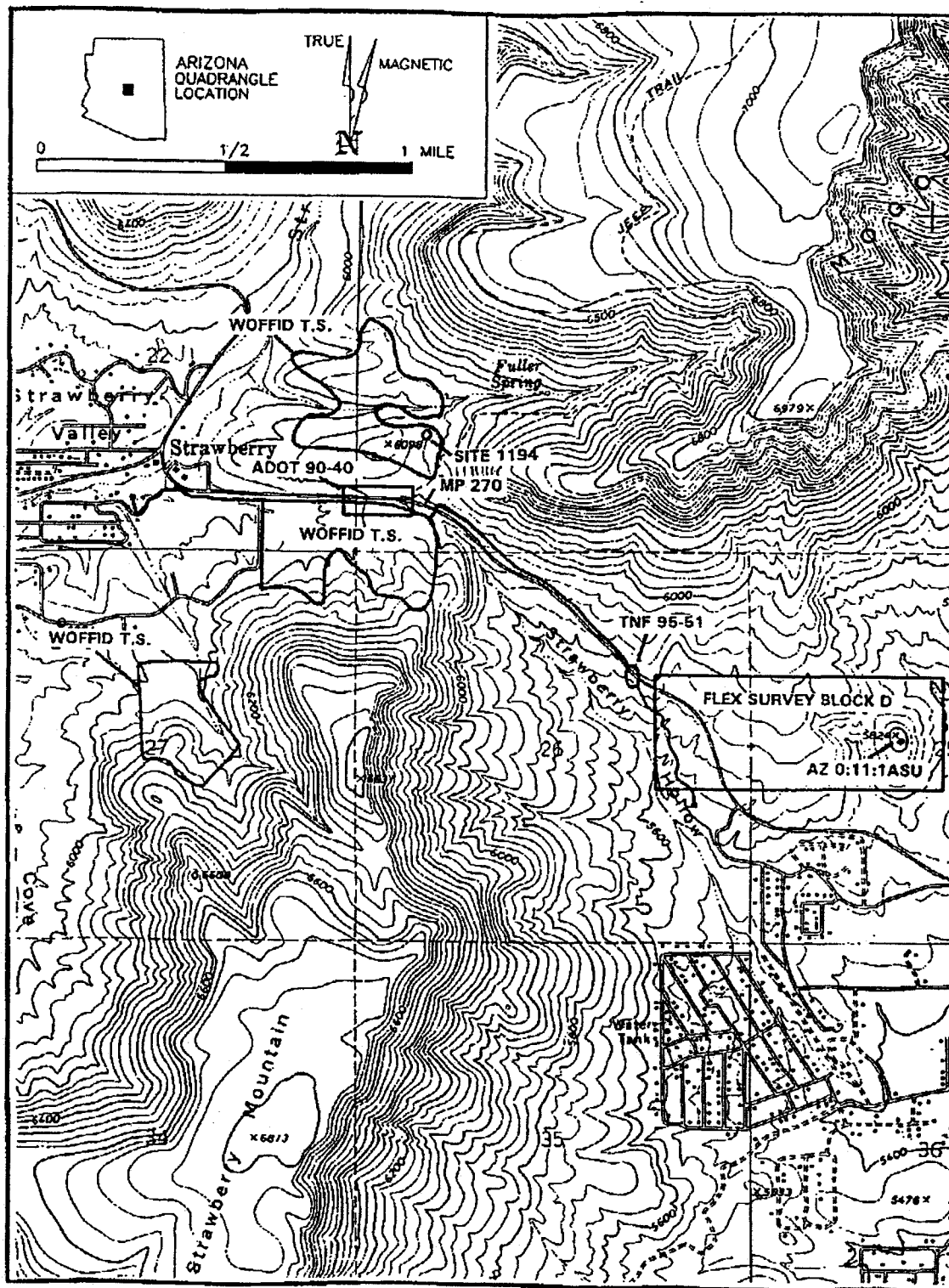


Figure 2. Location of previous surveys conducted within or adjacent to the project area. Base map is USGS 7.5 minute quadrangle Pine, AZ 1973.

In addition to these archaeological surveys, several historic inventories have been conducted in the area. In 1995, Plateau Mountain Desert Research performed an archaeological reconnaissance of eight potentially historic roads north of Payson, as well as an evaluation of NRHP-eligible properties in Strawberry and Pine (Spalding 1995a, 1995b). Included in this inventory was the Mormon Wagon Road (AR-03-12-04-1288). It is not clear from the report exactly where this site was identified on the landscape ("from the junction of SR 87 to the NE"). However, "the area inspected had been heavily disturbed by recent burning, logging, erosion, and camping activities, and this segment of road lacks integrity" (Spalding 1995a).

In 1996, a historic resources inventory of Pine, Arizona, was prepared by Johns & Strittmatter, Inc. This study involved the documentation of the history and historic architecture of Pine by means of a field inventory and archival research (Johns and Strittmatter, Inc. 1996).

FIELD METHODS

The survey consisted of a 100% Class 1 survey of a 100-foot ROW centered on the proposed water line. The ROW width was surveyed in two parallel transects spaced 15 m apart off each side of the centerline. Sites encountered were mapped, photographed, described, and plotted on the corresponding 7.5-minute quadrangle map.

SITE DESCRIPTIONS

A total of two sites were identified during the survey. The first site, AR-03-12-04-1429/AZ O:11:53(ASM), is a small (9 × 5 m) historic artifact scatter associated with historic Forest Highway 9 (Figure 3). The site is located in T12N, R8E Section 26, SE¼SW¼NE¼. Approximately 30 fragmented metal cans, several porcelain sherds, and numerous shards of brown, clear, and amber glass comprised the site. Both the porcelain and glass were highly fragmented. The porcelain may have represented a single plate. The only identifiable glass piece was a clear jar base fragment. The cans were primarily weathered sanitary (milk and meat) cans with side and top/bottom seams, and church key openings. No solder was apparent on the seams or the tops and bottoms, and no measurements were possible on the milk cans due to their poor state of preservation. However, the presence of church key openings indicates that the cans post-date 1935, and a single carbon battery core on the site suggests a date after about 1920. These data, coupled with the lack of pull tabs on cans, suggests that the site probably dates between 1935 and 1962. The site appears to be limited to the modern ground surface, and may be in secondary deposition.

The second site is a previously unrecorded segment of the historic Forest Highway 9 (AR-03-12-06-2028/AZ U:8:60[ASM]). The portion of this site that falls within the boundaries of the project area is approximately 1.2 miles long, extending from the SE¼NE¼SE¼ of Section 26 to SE¼SW¼SW¼ of Section 23 of T12N, R8E, or from milepost 268.7 to 269.9 along SR 87 (Figure 1). The southern 1/3 of the segment is situated on the southwest side of SR 87, while the northern 2/3 of the segment lies on the northeast side of SR 87. The site is an unpaved, single lane dirt road. The road bed is 6 m wide on average, ranging from 5 to 7.5 m in places, and portions of the road, specifically those on the northeast side of SR 87, have been cut into the hillside to attain a level surface. In addition, at the northern end of the segment there is a large retaining wall that was built against the western edge of the road where the road apparently could not be cut into the hillside sufficiently (Figure 4). The retaining wall is a 16 m-long

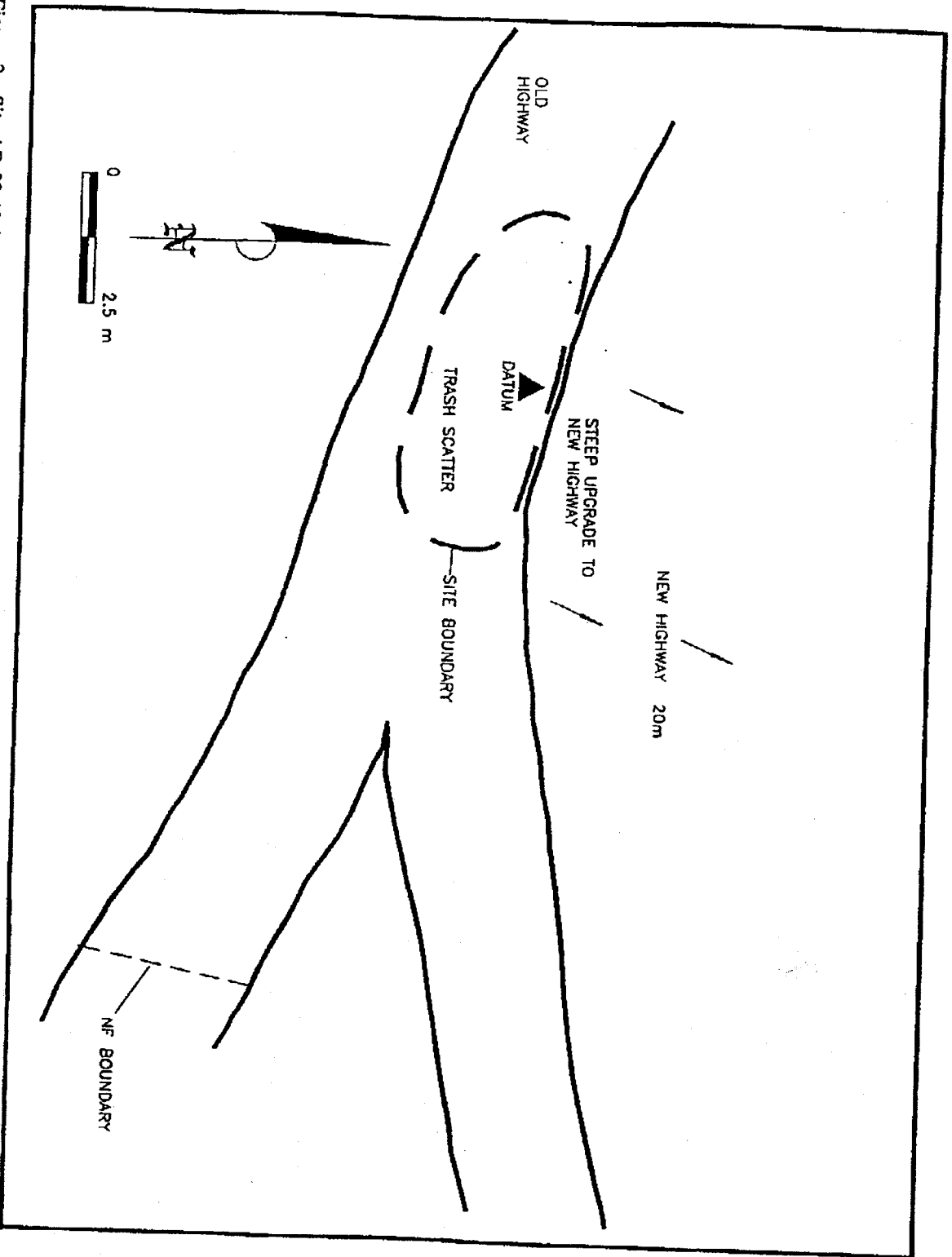
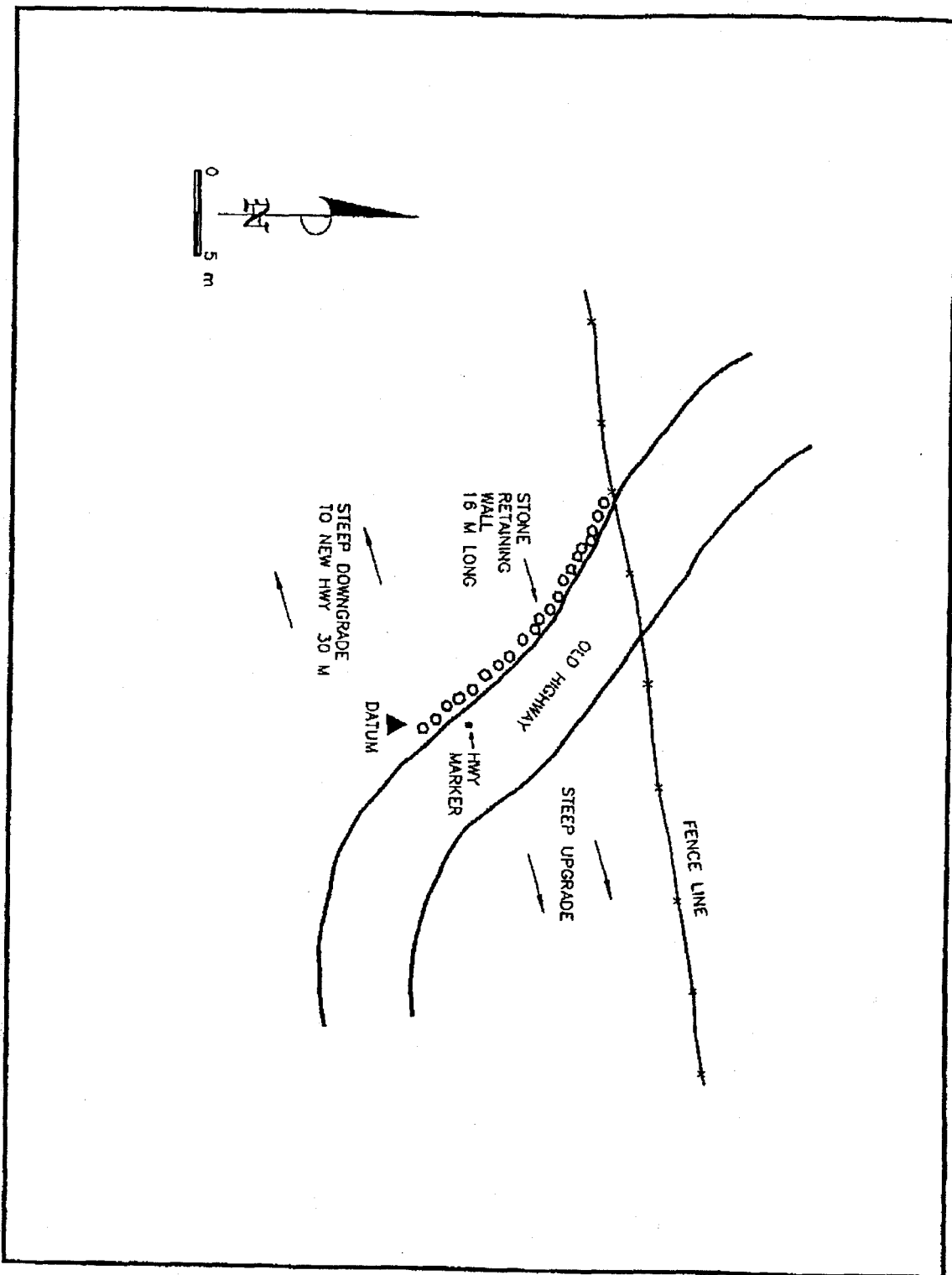


Figure 3. Site AR-03-12-04-1429/AZ O:11:53(ASM) plan map.

Figure 4. Site AR-03-12-06-2028/AZ U:8:60(ASM) plan map.



stone wall comprised of unshaped sandstone boulders ranging in size from 25×30×10cm to 60×50×30 cms. These stones were heavily coated with lichen. No mortar was evident in the wall. The height of the wall ranged from .60 m to 1.3m (about 10 courses of stone). Next to the retaining wall in the road was a survey marker labeled "Arizona Highway Dept. R & M 779-15 1969." No other artifacts or features were associated with this retaining wall feature.

The southern end of this road segment was obscured by damage resulting from the construction of SR 87. In addition, modern off-road vehicle tracks were prevalent along the entire length of the segment. No artifacts were identified along the length of the road segment.

This road segment appears to be a portion of the realignment of the road that was constructed in the late 1940s-1950s. No other alignments or roads were visible, indicating that this realignment overlies and obscures earlier road alignments.

EVALUATION OF CULTURAL RESOURCES AND RECOMMENDATIONS

The recording, mapping, and photographing of Site AR-03-12-04-1429 is believed to have exhausted the potential of this site to yield further significant information; therefore, this site is not recommended as eligible to the NRHP.

Forest Highway 9 served as a major early transportation route for western Gila County. Because of this, Site AR-03-12-06-2028 has been previously recommended as eligible to the NRHP under Criterion A (event) and potentially eligible under Criterion D (information potential) of 36 CFR Part 60.4 (Barz 1997). However, the segment of the road within the current project area has been impacted by SR 87 construction and maintenance activities, as well as extensive modern off-road vehicular use. The road segment within the current project boundary lacks integrity and thus does not contribute to Forest Highway 9's National Register eligibility. Furthermore, the recording, mapping, and photographing of this road segment of the road has exhausted the potential to yield further significant archaeological information. Proposed construction activities may impact the road segment within the project area, but these activities will not alter the overall character of the historic road. Moreover, the proposed activities will not affect the site's eligibility to the NRHP.

Archaeological clearance is recommended for the proposed water pipeline.

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**A CULTURAL RESOURCES SURVEY OF A 1.9-MILE
PROPOSED WATER PIPELINE BETWEEN PINE AND
STRAWBERRY, ARIZONA**

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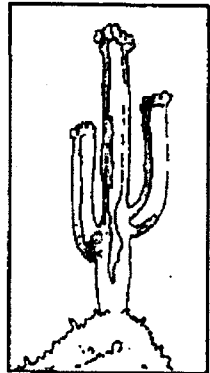
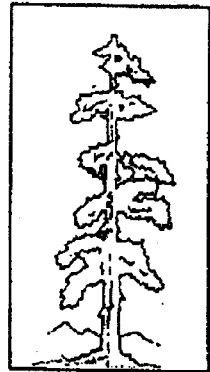
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November 13, 1997



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INTRODUCTION

At the request of Brooke Utilities, Inc., SWCA, Inc., Environmental Consultants (SWCA) conducted a cultural resources survey along a 1.9-mile segment of Arizona Department of Transportation (ADOT) easement corridor along State Route (SR) 87 between Pine and Strawberry, Arizona. The survey was done on October 31, 1997 in compliance with the National Historic Preservation Act. The survey area consisted of a 100-foot right-of-way (ROW) for a proposed water pipeline extending from Strawberry Hollow northwest to Strawberry Knolls (Figure 1). The project pipeline will impact only 30 feet of the 100-foot wide survey area, thus providing a sufficient bufferzone. For about half of its length, the proposed pipeline follows the historic Pine-Strawberry Road (Forest Highway 9); for the other half it parallels the ROW fence for SR 87. The survey objective was to record and mark for avoidance any significant cultural resources that would be impacted by the proposed water line. The survey was conducted under the provisions of Tonto National Forest Permit No. 4306-12, and Arizona State Museum Annual Permit No. 1997-03BL. The fieldwork was conducted by James M. Potter.

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Following the TNF Region 3 Cultural Resources Handbook (1987), archaeological sites were defined by the presence of (1) one or more feature; (2) one formal tool if associated with other cultural materials of more than one formal tool; and (3) an occurrence of cultural material in a density of at least 10 items per 100 m², or a single type of artifact or material in a density of at least 25 items per 100 m². The observation of cultural remains not meeting these criteria were recorded as isolated occurrences (IO).

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(Brown 1994). Species present in the area include juniper (*Juniperus* sp.), pinyon (*Pinus edulis*), ponderosa pine (*Pinus ponderosa*), live shrub oak (*Quercus tubinella*), manzanita (*Arctostaphylos* sp.), catclaw mimosa (*Mimosa biuncifera*), and assorted unidentified grasses and annuals.

PREVIOUS RESEARCH

Previous research in and around the project area has been limited primarily to small archaeological surveys and historic inventories. Archaeological surveys done within or immediately adjacent to the project area include a survey performed by Arizona State University for a federal land exchange in 1986, a survey completed by Tonto National Forest in 1992 for the Wooffid Timber Sale, and a survey conducted by the Tonto National Forest for ADOT in 1995.

In 1986, at the request of the Federal Land Exchange, Inc, the Office of Cultural Resource Management at Arizona State University conducted an archaeological survey in and around the project area. No acreage value was given in the report. Within the survey block included in the current project area (Block D), ASU archaeologists visited and rerecorded one previously recorded site, AZ O:11:1(ASU) (Figure 2). No additional sites were found. Site AZ O:11:1(ASU) is located on a small knoll located approximately 700 m to the east of SR 87, and this site was estimated to contain between three and eight rooms enclosed by a low enclosing wall. The site dates between A.D. 900 and 1300 (Lindauer 1986).

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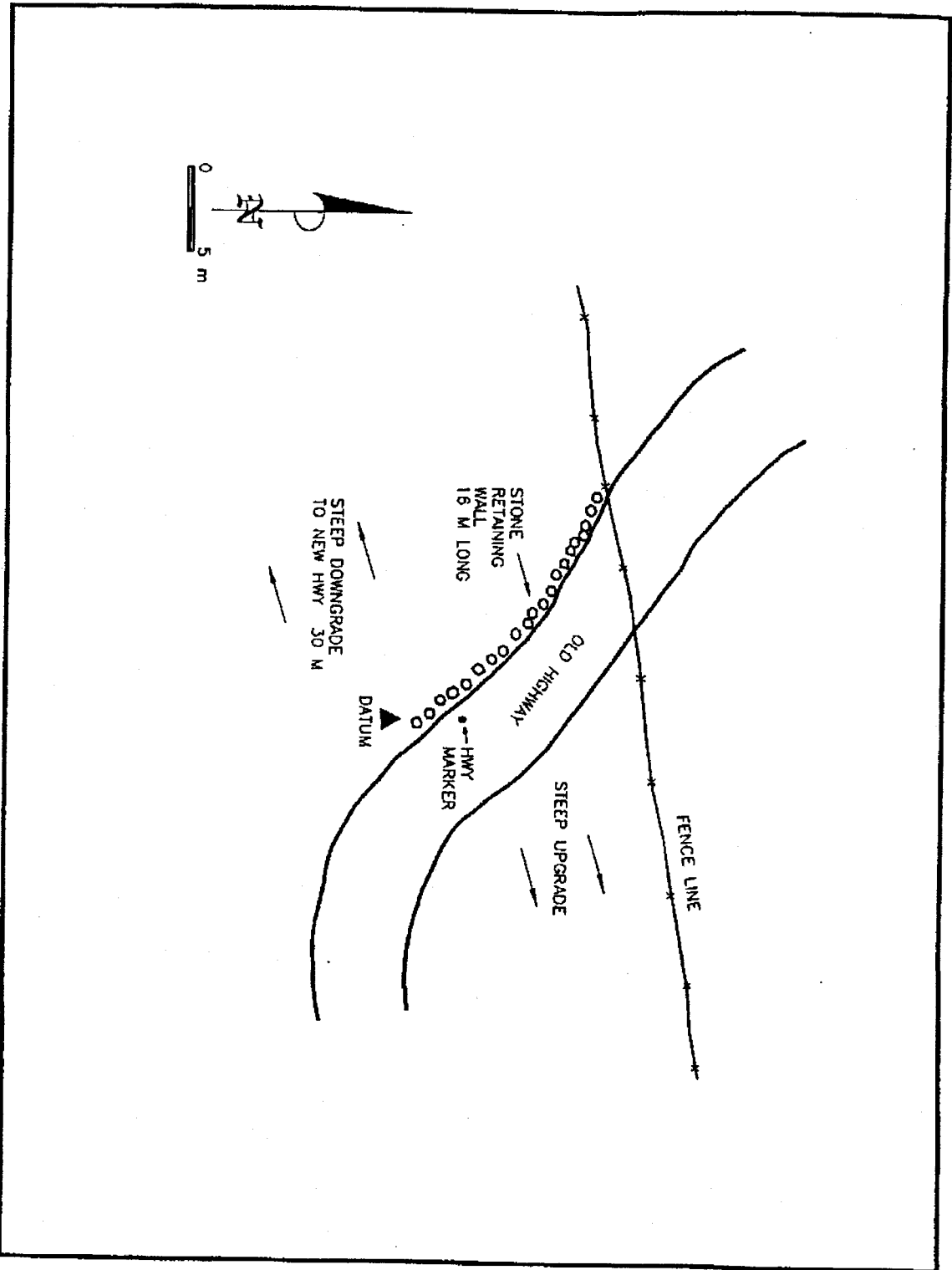


Figure 4. Site AR-03-12-06-2028/AZ U:8:60(ASM) plan map.

stone wall comprised of unshaped sandstone boulders ranging in size from 25×30×10cm to 60×50×30 cms. These stones were heavily coated with lichen. No mortar was evident in the wall. The height of the wall ranged from .60 m to 1.3m (about 10 courses of stone). Next to the retaining wall in the road was a survey marker labeled "Arizona Highway Dept. R & M 779-15 1969." No other artifacts or features were associated with this retaining wall feature.

The southern end of this road segment was obscured by damage resulting from the construction of SR 87. In addition, modern off-road vehicle tracks were prevalent along the entire length of the segment. No artifacts were identified along the length of the road segment.

This road segment appears to be a portion of the realignment of the road that was constructed in the late 1940s-1950s. No other alignments or roads were visible, indicating that this realignment overlies and obscures earlier road alignments.

EVALUATION OF CULTURAL RESOURCES AND RECOMMENDATIONS

The recording, mapping, and photographing of Site AR-03-12-04-1429 is believed to have exhausted the potential of this site to yield further significant information; therefore, this site is not recommended as eligible to the NRHP.

Forest Highway 9 served as a major early transportation route for western Gila County. Because of this, Site AR-03-12-06-2028 has been previously recommended as eligible to the NRHP under Criterion A (event) and potentially eligible under Criterion D (information potential) of 36 CFR Part 60.4 (Barz 1997). However, the segment of the road within the current project area has been impacted by SR 87 construction and maintenance activities, as well as extensive modern off-road vehicular use. The road segment within the current project boundary lacks integrity and thus does not contribute to Forest Highway 9's National Register eligibility. Furthermore, the recording, mapping, and photographing of this road segment of the road has exhausted the potential to yield further significant archaeological information. Proposed construction activities may impact the road segment within the project area, but these activities will not alter the overall character of the historic road. Moreover, the proposed activities will not affect the site's eligibility to the NRHP.

Archaeological clearance is recommended for the proposed water pipeline.

Brooke Utilities, Inc.

Colorado River Division • 9079-S Riverside Dr., Parker, Arizona 85344 (520) 667-3335 / (520) 667-2527 Facsimile
Circle City Division • P.O. Box 82218, Bakersfield, California 93380 (800) 792-7665 / (800) 748-6981 Facsimile
Payson Division • 1011 So. Stover Rd., Payson, Arizona 85541 (520) 474-1337 / (520) 474-1695 Facsimile
Corporate Offices • 3101 State Rd., Bakersfield, California 93308 (800) 792-7665 / (800) 748-6981 Facsimile

November 25, 1997

Ralph Bossert
ASL/Sierra Consulting Engineers, Inc.
431 So. Beeline Highway
Payson, AZ 85541

Re: **Project Magnolia**

Dear Ralph,

Pursuant to our meeting at your offices of November 18 regarding the engineering status of the above referenced matter, please consider this correspondence as your authorization to proceed with professional services related to same, as further defined herein, not to exceed Ten Thousand Dollars and No Cents (\$10,000.00) ("Submittal Engineering Cost") exclusive of those preliminary services previously approved in the approximate amount of Three Thousand Six Hundred Dollars (\$3,600).

It is my understanding that the professional services related to the Submittal Engineering Cost will provide engineering drawings and related notations ("Submittal Engineering Drawings") that will allow submittal to various authorities having jurisdiction for review and subsequent approval including, but not limited to, the Arizona Department of Environmental Quality, Arizona Department of Transportation, Gila County, United States Forest Service (collectively "Agencies") and other authorities having jurisdiction. It is not my understanding the Submittal Engineering Drawings, described by this correspondence, will include final engineering drawings that may be approved by the Agencies but will provide for development of comments and recommendations which will subsequently lead to same. Further, it was my understanding at our meeting that approximately Seven Thousand Dollars (\$7,000) of the Submittal Engineering Cost has already been incurred, prior to issuance of this authorization correspondence, and that not more than Three Thousand Dollars (\$3,000) remains to be incurred in order to achieve the objective of the Submittal Engineering Drawings. It is not the purpose of this correspondence to approve engineering services in excess of the Submittal Engineering Cost at this time.

As you are aware the proposed construction schedule of this project is extremely demanding and deserves all of our collective expeditious attention. We appreciate your continuing attention to this aspect of this project.

Brooke Water LLC, C&S Water Company, Inc., Desert Utilities, Inc., E&R Water Company, Inc.,
High Country Water Company, Inc., Pine Oak Water Co., Inc., United Utilities, Inc., Williamson Water Works, Inc.

Ralph Bossert
ASI/Sierra Consulting Engineers, Inc.
November 25, 1997

Sincerely,



Robert T. Hardcastle
President
RTH@jaco.com

Enclosures (as applicable)

cc: RTH correspondence file
Project Magnolia development file
DS, JGH, MJ
c:\brookentilities\aforn\letter

LAST TRANSACTION REPORT FOR HP FAX-700 SERIES

VERSION: 01.03

FAX NAME: JACO OIL CO
FAX NUMBER: 8053938738

DATE: 25-NOV-97
TIME: 15:13

DATE	TIME	REMOTE FAX NAME AND NUMBER	DURATION	PG	RESULT	DIAGNOSTIC
25-NOV	15:12 S	520 474 4867	0:00:56	2	OK	66384010016C

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United States
Department of
Agriculture

Forest
Service

Tonto
National
Forest

2324 E. McDowell Road
Phoenix, AZ 85006
602 225-5200

File Code: 1580

Date: August 25, 1998

Brooke Utilities, Inc.
3101 State Road
Bakersfield, CA 93308

Attn: Robert T. Hardcastle, President

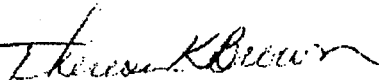
Re: MOU-03-12-98-D4-036
NEPA Analysis for Pine/Strawberry Pipeline

Dear Mr. Hardcastle:

Enclosed please find a fully executed original of the above-mentioned Memorandum of Understanding for your files.

We look forward to working with you on this project.

Sincerely,



THERESA K. BROWN
Budget Officer

Enclosure

MEMORANDUM OF UNDERSTANDING
between
FOREST SERVICE, TONTO NATIONAL FOREST
and
BROOKE UTILITIES, INC.

I. INTRODUCTION AND PURPOSE

The intent of this Memorandum of Understanding (MOU) is to establish an understanding and procedure between the US Department of Agriculture, Forest Service, Tonto National Forest (Forest Service) and the Brooke Utilities, Inc. for the purpose of accomplishing work related to the environmental analysis and documentation for the Pine-Strawberry Waterline proposal. This memorandum defines the responsibilities of all parties and sets forth the conditions under which the analysis and documentation will be completed. *meB* *RA*

The Pine-Strawberry Waterline Project is a proposal to construct ~~24~~ *meB* inch diameter water line adjacent to State Highway 87 from the unincorporated communities of Pine and Strawberry. The Payson Ranger District can not respond to the proposal in a reasonable time frame. Therefore, Brooke Utilities, Inc. will engage a consultant for the preparation of an Environmental Assessment and related reports, documents, and evaluations.

The Forest Service is the lead agency and retains ultimate responsibility for multiple-use management on National Forest System lands, for National Environmental Policy Act ("NEPA") compliance, and for directing the preparation of the Environmental Assessment and related documents.

II. GENERAL PROVISIONS

A. The Forest Service has approved AZtec Research and Consulting, as a qualified consultant (NEPA) contractor, to compile information, conduct data analysis, and all work related to NEPA documentation preparation. Costs for retaining AZtec Research and Consulting will be borne by the Brooke Utilities, Inc.

1. AZtec Research and Consulting may employ such other consultants and experts (Subcontractors) as are required for the adequate development and preparation of the NEPA document.

2. The qualifications of any subcontractors involved in the NEPA analysis or documentation will be evaluated and approved by the Forest Service prior to their work. Such approval will be provided to Brooke Utilities, Inc. in writing.

3. The NEPA Contractor will work directly for the Forest Service and will not take direction from Brooke Utilities, Inc.. The NEPA Contractor will make note of any communications with Brooke Utilities, Inc. in the Project Record.

B. AZtec Research and Consulting will gather environmental data, information, and reports required by the Forest Service for preparation of the NEPA document. This information includes any new material required following public comments. Brooke Utilities, Inc. may provide any of this information that they have accumulated.

C. The contract between Brooke Utilities, Inc. and AZtec Research and Consulting and any Subcontractors shall be consistent with the provisions of this MOU and

shall specifically incorporate those provisions herein which address the conduct of the Consultants.

1. Said contracts shall provide, and Brooke Utilities, Inc. hereby represents, except as provided in Section C.2. below, and that AZtec Research and Consulting, Subcontractors do not have any direct or indirect financial or other interest in the planning, design, construction, operation, or outcome of the Project, except with regard to the preparation of the NEPA document. Further, Brooke Utilities, Inc. shall ensure that the contract with AZtec Research and Consulting and Subcontractors shall specifically limit any remedies available to AZtec Research and Consulting and Subcontractors as to affirmatively relieve the United States Department of Agriculture, the Forest Service, and any officer, agent, or employee of same from any liability arising out of the performance or termination of such contracts or subcontracts on the Project or the MOU.

2. Brooke Utilities, Inc. Shall direct AZtec Research and Consulting and Subcontractors to provide the Forest Service within 30 days of execution of a contract between Brooke Utilities, Inc. and AZtec Research and Consulting and any Subcontractors, a disclosure statement (Statement of Financial Interest, (SOFI) outlining ownership of stocks, bonds, or other financial, legal, or other interest in Brooke Utilities, Inc. or the outcome of the Project by the AZtec Research and Consulting, or employees thereof, and Subcontractors or employees thereof. The SOFI shall also list any previous contracts, and total amounts of each between Brooke Utilities, Inc. and AZtec Research and Consulting and any Subcontractors.

D. Brooke Utilities, Inc. agrees to hold harmless and indemnify the Forest Service, their officers, agents, and employees, with respect to any and all judgements or settlements arising from claims, demands, or causes of action in connection with the employment of AZtec Research and Consulting and any Subcontractors which may arise from the termination of performance of the contracts or any other services or purchases of materials utilized for the development and preparation of the NEPA document or from termination of this MOU.

E. The Forest Service in the Southwestern Region uses the Integrated Resource Management process (IRM) as a method of implementing requirements of NEPA. All portions of the IRM process applicable to the Project will be followed in collecting and preparing environmental data, information, reports, preparation, analyses, and documents.

F. The Forest Service shall prescribe and/or review and approve the types of environmental data and collection methodologies, and shall independently evaluate and approve all information, environmental data and analyses, documents, reports, and evaluations submitted by AZtec Research and Consulting and Subcontractors.

G. The Forest Service will establish an Interdisciplinary Team (IDT) to conduct and oversee the NEPA/IRM process. The IDT will direct the work performed by AZtec Research and Consulting and Subcontractors and be responsible for the scope and contents of all NEPA documentation.

H. The release of any information, including but not limited to, environmental data, analyses, and NEPA-related documents, reports, and evaluations, generated by AZtec Research and Consulting during the preparation of the NEPA document shall be done through or with the approval of the Forest Service.

I. The requests for any information, including but not limited to, environmental data, NEPA related documents, reports, and evaluations, needed by AZtec Research and Consulting during the preparation of the NEPA document shall be done by the Forest Service. Privileged information submitted by Brooke Utilities, Inc. shall not be released to the public.

J. To facilitate the development of environmental data and the preparation of the NEPA document, joint meetings between the Forest Service and AZtec Research and Consulting will be held to inform Brooke Utilities, Inc. of the progress of the work. Should any situation indicate the need for a change of direction of the Scope of Work or a change in the conception of the NEPA documentation, then

prior to initiation of such changes, all parties will be informed of the need for change.

K. The Forest Service, AZtec Research and Consulting and Brooke Utilities, Inc. shall attend meetings as necessary with the public, federal, state, regional, and local agencies for the purpose of increasing communications and receiving comments; as the same may be necessary, desirable, or required by law, and insofar as such meetings are relevant to the development and preparation of the NEPA document. All parties will be notified of any pertinent meetings that are scheduled.

L. The parties will establish a detailed schedule that outlines the NEPA documentation preparation process and indicates key milestones for its completion. The parties will attempt to comply with the time frames specified in the schedule, subject to changes in the scope of the project or other conditions beyond the parties' control.

M. No Member of Congress, Delegate to Congress, or Resident Commissioner shall be admitted to any share or part of this agreement, or to any benefit that may arise therefrom; but this provision shall not be construed to extend to this agreement if made with a general corporation for its general benefit.

N. All parties to this agreement do hereby expressly waive all claims against every other party hereto for compensation for any loss, damage, personal injury, or death occurring as a result of the performance of this agreement.

III. PROCEDURES

A. Forest Service Responsibilities.

1. The Forest Service shall designate a single point of contact on all matters concerning NEPA requirements and document preparation.
2. The Forest Service along with AZtec Research and Consulting will develop a public scoping plan in accordance with NEPA, which may include, but not be limited to, public meetings, public review of the project, and analysis of public comments. This plan will include development of a mailing list based on interested and affected publics and participants.
3. All cover letters used to mail information to other agencies and to the public shall be on Forest Service letterhead and shall be signed by the Forest Supervisor or his delegates.
4. AZtec Research and Consulting will be responsible for distribution of any draft and final documents.
5. The Forest Service shall be the recipient of all public comments. Comments will be provided to AZtec Research and Consulting for content analysis and incorporation into the NEPA document.
6. The Forest Service shall approve a project scoping report documenting the products from IRM Steps 5-6, before proceeding to subsequent IRM steps.
7. AZtec Research and Consulting shall provide the Forest Service with opportunities to review and comment on both the draft and final NEPA documents. AZtec Research and Consulting shall be responsible for incorporating all changes to the documents as required by the Forest Service.
8. The Forest Service shall make the final determination on the inclusion or deletion of materials in all instances where relevance the material is in question.
9. The Forest Service will monitor and review the work of AZtec Research and Consulting and Subcontractors to assure NEPA requirements are satisfied. AZtec Research and Consulting will periodically formally report to the Forest Service (and will copy Brooke Utilities, Inc.) on the progress of work, problems encountered, and suggested changes in methodology or schedules for completion.

10. Upon completion of the Environmental Assessment, the Forest Service will write the Decision Notice (or Decision Memo if warranted).

11. The Forest Service shall make available to AZtec Research and Consulting and Brooke Utilities, Inc. all resource inventories and land use information currently on file which cover the project study area for use in preparation of the NEPA document. Disclosure of site locations of sensitive resources (cultural resources and threatened, endangered, and Forest Service sensitive species) is prohibited. This prohibition applies to information provided by the Forest Service and to information gathered by all Contractors, Subcontractors, and Consultants.

B. Brooke Utilities, Inc. Responsibilities.

1. Brooke Utilities, Inc. shall designate a single point of contact on all matters concerning NEPA requirements and document preparation.
2. All costs incurred in connection with the retention of AZtec Research and Consulting and Subcontractors and with the preparation of the NEPA analysis and documentation will be the responsibility of Brooke Utilities, Inc..
3. Brooke Utilities, Inc. shall facilitate the coordination of effort and the exchange of information related to the planning, design, and construction of the Project as they relate to the preparation of the NEPA documentation.

C. AZtec Research and Consulting Responsibilities.

1. Under the direction of the Forest Service, AZtec Research and Consulting will follow the IRM process where applicable to the Project, and the Forest Service manual and handbook for preparation of the NEPA document.
2. AZtec Research and Consulting will participate in preparation of the public involvement plan (see III.A.2), and will conduct public scoping meetings with Forest Service assistance.
3. AZtec Research and Consulting will develop alternatives for Forest Service approval.
4. AZtec Research and Consulting will prepare the project scoping report, correspondence documents.
5. AZtec Research and Consulting will utilize environmental data collected by Brooke Utilities, Inc. its Consultants, or AZtec Research and Consulting's subcontractors to prepare reports and analyses necessary for preparation of both the draft and final NEPA document.
6. AZtec Research and Consulting will have the responsibility for writing, rewriting, printing, and mailing the draft and final NEPA document and all parent or appendix material, for researching and documenting social, physical, and biological information required by the Forest Service, and for preparing materials required in the public involvement plan. This will include performing content analysis on public comments.
7. AZtec Research and Consulting will create and provide to the Forest Service the Project Record and Index as defined under IRM, which shall include, but not be limited to, all data, reports, evaluations, analyses, public comments, responses, meeting notes, etc. This documentation shall be numerically numbered and organized chronologically with a Project Record Index supplied.

IV. TERMINATION

A. Either party to this MOU may terminate the same upon 30 days written notice to the other party. During the 30 day period, the parties will actively attempt to resolve any disagreement.

B. In the event of termination of this MOU, it is agreed as follows:

1. Brooke Utilities, Inc. shall assure that AZtec Research and Consulting provides the Forest Service with the Project Record complete to the date of termination of the MOU.

2. Brooke Utilities, Inc. shall assure that AZtec Research and Consulting submits to the Forest Service a written report on all environmental work and analysis performed prior to termination of the MOU.

C. Liability to AZtec Research and Consulting and Subcontractors for termination shall be in accordance with this MOU.

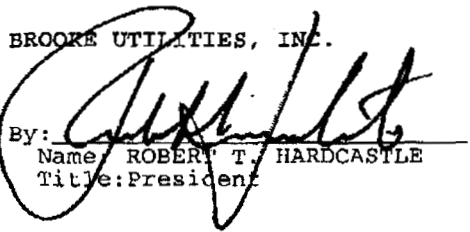
D. The MOU terminates on approval or denial of a special use permit.

V. MODIFICATIONS

A. This MOU may be modified by the parties hereto by mutually agreed upon written amendment.

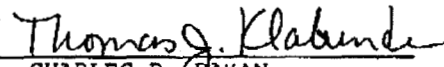
B. This MOU will be effective as of the last date signed below.

BROOKE UTILITIES, INC.

By: 
Name: ROBERT T. HARDCASTLE
Title: President

Date: 8-17-98

U.S. DEPARTMENT OF AGRICULTURE
Tonto National Forest

By: 
Name: CHARLES R. BAZAN
for: Forest Supervisor

Date: 8/19/98

Brooke Utilities, Inc.

Customer Service Center • P. O. Box 82218 • Bakersfield, California 93380-2218 • (800) 792-7665 • (800) 748-6981 Facsimile

ROBERT T. HAJOKASTLE
(805) 633 7526
RTH@jacu.com

November 19, 1998

Via Facsimile (520) 425-3720

Jerry DeRose
Gila County Attorney's Office
Gila County
1400 East Ash St.
Globe, AZ 85501

Re: **Pine-Strawberry Water Improvement District ("PSWID")**

Dear Mr. DeRose,

On several previous public and private occasions, I have asked Chairman Matthews of the PSWID, to publicly state PSWID's support or opposition to Brooke Utilities, Inc.'s ("Brooke") proposed Project Magnolia (a water pipeline connecting the communities of Pine and Strawberry). This request has met with resistance for various implausible reasons that appear to be excuses rather than explanations. PSWID's latest reason for not taking a position on this matter is that the Bylaws of PSWID expressly prohibit them from doing so.

My recent review of the current PSWID Bylaws does not find the express prohibition referenced by Mr. Matthews. Further, no inference or indirect prohibition to a statement of position in matters which concern the basic reason for PSWID's original formation are contained within the PSWID Bylaws. It is the opinion of Brooke that PSWID's refusal to express its position on matters of such critical concern to the communities of Pine and Strawberry is a failure of the present Board and its Chairman and constitutes sufficient cause for removal from office.

I would appreciate your thorough review of this matter and conclusion with regard to Mr. Matthews' contention that the PSWID Bylaws prohibit the Board from stating a position with regard to such matters.

Brooke Water L.L.C. C&S Water Company, Inc. E&R Water Company, Inc. United Utilities, Inc.
Williamson Water Works, Inc. Circle City Water Co. L.L.C. Strawberry Water Co., Inc. Pine Water Co., Inc.
Payson Water Co., Inc. Navajo Water Co., Inc. Tonto Basin Water Co., Inc.

Jerry DeRose
Gila County Attorney's Office
November 19, 1998

Thank you for your consideration in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert T. Hardcastle", written in a cursive style.

Robert T. Hardcastle
President

Enclosures (as applicable)

cc: RTH correspondence file
PSWID file
HM, PSWID
DS, JGH, MJ, JD, LK, WM
c:\brookentilities\formletter

EXHIBIT

2

1 conscientiously address water storage needs for the area based on reasonable numbers. I suspect that the
2 ADEQ standard would yield a much lower amount than my example of what is truly needed for the Pine
3 area as the ADEQ protocol does not have a component to deal with the nature of the water demand
4 fluctuations that the system is clearly subjected to. Solely relying on a storage calculation formula that
5 addresses only minimum standards while not considering the realities of the situation, in my opinion, is
6 an irresponsible water management practice. Further requirements relevant to fire flow are surely
7 applicable; assuming such an addition to the water system was to provide some form of fire protection.
8 However, I am not familiar with the Pine/Strawberry Fire District's storage and flow requirements.

9
10
11 #3.10

- 12 a) See 3.9 above.
- 13 b) See 3.9 above.
- 14 c) This is dependent on many factors such as, land acquisition costs, site preparation costs, tank
15 construction, permitting, and so on. Without a qualified engineer's assessment, the question
16 cannot accurately address this portion of your question.
- 17 d) See 3.10c above.
- 18 e) See 3.10c above.

19
20 # 3.11 In his surrebuttal testimony, Mr. Ploughe referred to the PSWID commissioned Morrison and
21 Maierle report on several occasions. Though he disagreed with some aspects of the report, it clearly
22 indicates there is reasonable groundwater potential below Pine, even though the author ultimately
23 concludes otherwise. Evidence for this is presented where water level data is shown relevant to a well
24 referred to as the Strawberry Hollow Well in Pine in figure 6-7. The significance of the groundwater
25 elevation at this site was simply overlooked. This data indicates that a well drilled 900-1,000 feet deep,
26 in that area of Pine, AZ, would encounter a deep groundwater source. While the Strawberry Hollow
27 well water level elevation is reported accurately in the report, the subsurface lithology encountered is
28 not. On this same figure, the Strawberry Hollow Well is presented as drilled approximately 200ft. into
29 Precambrian rocks. This is not accurate. The well never encountered the Precambrian rocks and

1 therefore penetrates as much as 400ft. of the saturated Redwall/Martin aquifer system. In consequence,
2 the Redwall and Martin Formations are thicker and deeper than predicted in the report's figure 6-7. To
3 date, no additional written technical reports have been published with information regarding the
4 Strawberry Hollow Well.

5
6 #3.12 In meetings of the Mogollon Rim Water Resources Management Study Technical Committee,
7 Brooke Utilities Involvement was discussed on several occasions. In particular, a need for water usage
8 data from Brookes was identified very early. Mr. Ploughe has attached the meeting minutes of the
9 Technical Committee, where mention of a few of the many attempts to contact Brooke is recorded.
10 Encouragingly, since the December 16th meeting, Ms. Myndi Brogdon of Brooke Utilities has been
11 present and has indicated a willingness to provide needed information. This is much appreciated. Still,
12 to his knowledge, no data has been provided as yet, although Myndi has assured the Committee that
13 some data from Brooke areas other than Pine will be forthcoming.

14
15 #3.13 The ultimate source of federal funding for any potential water infrastructure and/or development
16 project is subject to congressional approval and/or action. The BOR Staff is more familiar with the
17 actual specific potential funding mechanisms and types of funding than Mr. Ploughe. However, he is
18 aware that there is pending legislation amending the Small Reclamation Projects Act currently before
19 Congress. It is Mr. Ploughe's understanding that this pending legislation would apply to the region.
20 Again, the BOR staff is more familiar with such specific funding options. The federal process will
21 require a demonstration of need and an assessment of options and their acceptability. The challenge is to
22 identify any large-scale efforts required for presumably viable options such that the needs can be
23 appropriately defined along with an overall assessment of the potential options. The result of such an
24 overall assessment could yield the BOR's (federal) interest should it be large enough in scale to justify a
25 feasibility assessment. This is primarily what the current BOR study will attempt to address. In
26 addition, once the study demonstrates what the viable options are, non-federal funding sources could
27 also be pursued. Such as the States Water Infrastructure Financing Authority, WIFA, or the Greater
28 Arizona Development Authority, GADA. Ultimately, the BOR study is a first step towards potential
29 federal and even State funding options.

EXHIBIT

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#3.14 See response to #3.11 above.

#3.15 See previous testimony at page 6 lines 4-12, in Mr. Ploughe's surrebuttal testimony submitted December 22nd 2003 and responses to 3.9 and 3.10 above.

EXHIBIT

4

The Payson Roundup

Archived stories

Public has been kept in the dark about PSWID

Tuesday, February 10, 2004

Editor:

I left a meeting of the Gila County Supervisors held in Payson in early September 2003, with the impression that the Pine Strawberry community would be kept informed about Pine Strawberry Water Improvement District (PSWID) business.

Since September, Gila County Supervisors have made no report to the public about the status of PSWID. It is known that a citizen's advisory group has been formed. However, there has been no public announcement about how to contact members of this group, the purpose of this group, and the date and times of meetings. It is known that an attorney and consultant have been hired for PSWID. The public has not been provided with any explanation about why it was necessary to hire these people, nor has the public been told how much is being spent for fees related to these people.

Why are the County Supervisors not providing the Pine Strawberry community with information about PSWID? Isn't it time that the Gila County Supervisors end the secrecy about PSWID affairs and provide an explanation of how they are spending taxpayer money?

Bernice E. Winandy, Pine

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The Payson Roundup

Archived stories

County water meetings should be held in Rim country

Tuesday, February 10, 2004

Editor:

As I am paying taxes to Gila County for the PSWID, I feel it only fair that I have a right to attend the meetings of the PSWID. These meetings should be held within our district so that all citizens, young and old, can observe how, or where, Mr. Christensen and Mr. Nelson are spending our tax dollars.

An audit of the PSWID funds should be brought up to date and submitted to the taxpayers at an open meeting in Pine.

I think the supervisors should look into the devious ways that a few in our district dissolved our board for their personal benefit.

I beg you to reconsider your decision to remove our board and return it to the taxpayers of Pine and Strawberry with an election of a new board immediately. Then, we can continue with the charter of the PSWID to locate another source of water for our community.

We did not form the district to buy out a water company, which, by the way, has been financially able to make this the best functioning water company that Pine has ever had.

Elizabeth D. Kelly, Pine

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The Payson Roundup

Archived stories

'Renegade processes' are taking over

Tuesday, February 10, 2004

Editor:

As a citizen of Pine, Arizona, I am astounded at the direction our PSWID (Pine, Strawberry Water Improvement District) has taken. Since the PSWID board has been shut down and Mr. (Ron) Christensen (County Supervisor) has appointed new members to an advisory board, the PSWID rate payers of Pine and Strawberry have been left out of all decision meetings.

The advisory board includes Ray Pugel, Loren Peterson and several others who are in the Real Estate and Development business.

The "board" has apparently hired an attorney, with the money from PSWID, which are our tax monies, to pursue the purchase of the Pine, Strawberry water companies from Brooke Utilities.

With this action, we, the property owners, will no longer have input, through ACC, over our taxes or rates -- which could include up to \$12 million for a buyout and extensive infrastructure improvements.

We will be operating at the whim of the real estate developers and the county supervisors who apparently are biased in favor of this action.

Please don't let us down and allow these renegade processes to continue.

Thank you for your time.

Barbara Privette, Pine

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EXHIBIT

5

1 the alternate strategy of being "just" somewhat less than the cost of hauling water by truck Hardcastle
2 Dt. 27 17-20. In terms of the effects on the current rate-case of errors, misstatements, or wrong
3 information supplied by the Company, the situation of PWCo reflecting the \$17,040 in CWIP on records
4 of PWCo makes it clear that sloppy and misleading records consistently occur at PWCo. However,
5 Hardcastle wants to just pass the ownership situation off as an error by stating at Rt. 22 21-23 that "there
6 is obviously a serious error with respect to that listing" and at Rt.23 5-6 that "In other words, our plant
7 detail schedule in the last rate case was mistaken, at least with respect to Project Magnolia". The
8 position of Hardcastle at Rt. 27 7-10 that the District recognizes that Project Magnolia is owned by
9 Brooke Utilities" based on Jones testimony Dt. at 6 and the *Investigation of Groundwater Availability* at
10 3 is groundless since Mr. Jones and the authors of the study were simply re-stating what PWCo has
11 claimed is their rate hearing application.

12
13 #4.1-15 Incorrect Statements Related to Failure of Water Quality/Operating Issues/Reporting Issues:

14 PWCo and SWCo both failed to submit required Consumer Confidence reports (classed as a "major"
15 violations) to ADEQ and they did not report that fact for PWCo at Interrogatory 18. Again, this type
16 response goes to witness credibility and brings into question cost of necessary operational controls or
17 procedures.

18
19 #4.1-16 Misuse of the NARUC System of Accounting/Incorrect Classification of Transportation

20 Expenses: PWCo has regularly misclassified expenses in various categories. For example,
21 transportation expenses to be recorded in account #650 (according to the NARUC system of accounts)
22 are to "include all truck, automobile, construction equipment, and other vehicle expenses chargeable to
23 utility operations, except depreciation and insurance." Clearly, wheeling charges do not belong in this
24 account. Three lines above in the NARUC Chart of Accounts on p.120 is the correct account #636 that
25 should be used for "wheeling" charge services provided on a contractual basis, such account titled
26 "Contractual Services-Other." Bourassa admits at Interrogatory 28 that Transportation expenses for the
27 year 2000 were misclassified at the E-2 schedule and that "transportation" has been used to account for
28 the cost of contractual services for wheeling provided by Brooke. The use of the wrong accounting
29 categories adds to confusion, misunderstanding, and improper analysis. Costs of wheeling, done under

EXHIBIT

6

COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES



BRIAN C. McNEIL
Executive Secretary

ARIZONA CORPORATION COMMISSION

December 9, 2003

JAY SHAPIRO
DEC 11 2003
ACTION _____

Mr. Jay L. Shapiro
Mr. Patrick Black
Fennemore Craig
3003 North Central Avenue
Suite 2600
Phoenix, Arizona 85012

Re: Docket No. W-03512A-03-0279 (Pine Water Company Rate Case)

Dear Counselors:

On December 8, 2003, I attended the public comment session in Pine regarding the proposed rate increase for your client, Pine Water Company. I estimate that at least 150 people attended the meeting; many of them provided excellent comments and raised important questions. As the evidentiary record continues to be developed, I would like you to respond to the following key questions raised by various Pine Water customers who provided public comment.

1. Why does not a moratorium exist on new hookups until reliable water sources are secured?
2. Why should customers be required to pay a base monthly service charge during times when no water is available to them?
3. Why should customers residing in areas that have adequate water pressure, such as Portal III, be required to pay charges for hauling additional water supplies?
4. How can the company better communicate the status of its water supply to its customers in an understandable, factual and timely manner?
5. Is the company investigating new groundwater sources? Is the statement "there are no new groundwater sources available" factual? Is a groundwater resource study available to Pine residents?
6. Has the company drilled any new wells or deepened existing wells in the past three years? Does the company plan to drill new wells or deepen existing wells in the imminent future?
7. Would added storage capacity alleviate water supply problems, especially during times of likely disruptions (i.e., holidays, weekends, summertime)?

Mr. Jay L. Shapiro
Mr. Patrick Black
Page 2

8. Can meters be read at the same time each month so a customer's bill does not vary from month to month?

I look forward to your responses to these questions.

Sincerely,



Jeff Hatch-Miller
Commissioner

CC: Chairman Marc Spitzer
Commissioner Bill Mundell
Commissioner Mike Gleason
Commissioner Kris Mayes
Brian McNeil
Docket Control